City of Mountain View, California

Fiscal Year 2011-12

Narrative Budget Report—Other General, Special and Utility Enterprise Funds and Reserves

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CITY OF MOUNTAIN VIEW
MEMORANDUM

DATE: April 28, 2011

TO: City Council

FROM: Melissa Stevenson Dile, Interim City Manager

SUBJECT: MAY 3, 2011 STUDY SESSION—TRANSMITTAL OF NARRATIVE BUDGET REPORT—OTHER GENERAL, SPECIAL, UTILITY ENTERPRISE AND RESERVE FUNDS

A Study Session with the City Council has been scheduled for May 3, 2011 to consider recommendations associated with the adoption of the City's budget for Fiscal Year 2011-12. The topic for this report is the recommendations for Other General Funds (Building Services and Shoreline Golf Links), Special Funds (Revitalization Authority, Housing Set-Aside and Shoreline Regional Park Community), Utility Enterprise Funds (Water, Wastewater and Solid Waste Management) and Reserves. The Fiscal Year 2011-12 General Operating Fund Narrative Budget Report and Fiscal Years 2011-21 Long-Range Financial Forecast are transmitted as a separate report, but will also be discussed at this meeting.

A summary of the status and recommendations for the Other General, Special, Utility Enterprise and Reserve Funds included in this Narrative Budget Report are as follows:

Other General Funds:

- Building Services (Building): The Building Fund is in good financial condition, is able to meet its current financial obligations and is structured to weather the cyclical nature of the economy and development activity. Development activity is anticipated to pick up and Fiscal Year 2011-12 revenues are projected to increase.

- Shoreline Golf Links (SGL): For several years staff and Council have been discussing SGL financial issues, as operating revenues have been insufficient to fund operating expenditures. The SGL Fund is estimated to end the current fiscal year with an $8,000 balance. Staff recently issued a Request for Proposals (RFP) for a golf course management agreement and will be returning later in the summer with the results of the RFP and an alternative City model. Transition funding of $500,000 from the Budget Contingency Reserve is recommended to allow time for implementation of potential operational changes that may be approved by Council.

Special Funds:

- Revitalization Authority (Authority): During the current fiscal year, the Council approved a two-year extension of the Authority's operations to April 2013. Just prior to this decision, the Governor released his Fiscal Year 2011-12 proposed budget which included the proposed elimination of all redevelopment agencies. In an effort to maintain the commitment to revitalization programs and policies, Council subsequently approved a funding agreement which authorizes the Authority to transfer the available balance and remaining Capital Improvement Project (CIP) funding to a new CIP. The fund is in good financial condition, able to meet its operating and debt obligations through April 2013. The low-/moderate-income housing projects are progressing and will be funded from a combination of CDBG, BMR and Housing Set-Aside funds and previous debt issued by the Authority.

- Shoreline Regional Park Community (Shoreline Community) Fund:

  Property taxes for the Shoreline Community are lower for the current fiscal year primarily due to a 25.0 percent decline in unsecured assessed values (AV). Property taxes for Fiscal Year 2011-12 are projected to continue to decline as a result of anticipated commercial AV reductions and a further related decline in unsecured AV. The City amended the Joint Powers Agreement (JPA) with the school districts and will provide a total of $13.6 million of funding for school programs over a three-year period. As part of the short-term agreement with the school districts, the Shoreline Community will be undertaking several studies to assess the long-term obligations of the Shoreline Community. The fund is in good financial condition and is able to fulfill its obligations, including operating expenditures, debt service, interagency agreements and capital projects. Staff will be returning to Council in May for authorization to issue debt for major capital improvement projects.

Utility Funds:

- Water Fund: The San Francisco Public Utilities Commission (SFPUC) is currently proposing a wholesale water rate increase of 47.4 percent. This increase is related to the SFPUC not meeting their revenue projections (most likely due to the last two years of above-average rainfall compounded by conservation efforts) as well as funding the major restoration projects for the Hetch-Hetchy water system. In addition, the Santa Clara Valley Water District (SCVWD) is proposing 7.9 percent and 9.4 percent increases for treated water and well water, respectively. A 23.0 percent rate adjustment for City water services is recommended for the upcoming fiscal year in order to fund the significantly increased cost of wholesale water.

- Wastewater Fund: A 5.0 percent rate decrease is recommended for Fiscal Year 2011-12 in recognition of the $4.2 million in refunded operational costs from the Palo Alto Regional Water Quality Control Plant (PARWQCP) for the past two fiscal years. This fund is in good financial condition with a significant available balance and reserves.

- Solid Waste Management Fund: A contractual increase for Recology, increased costs for the SMaRT® Station, as well as City operating cost increases result in a recommended 6.0 percent rate increase for Fiscal Year 2011-12. Reserves have been reduced as service levels have declined due to the economy.

Reserves:

Most reserves are at or exceed their target or policy balance.

Staff looks forward to reviewing this information with the City Council on May 3.

Prepared by:

Melissa Stevenson Dile

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Interim City Manager

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DATE: April 28, 2011

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FROM: Melissa Stevenson Dile, Interim City Manager

SUBJECT: MAY 3, 2011 STUDY SESSION—NARRATIVE BUDGET REPORT—OTHER GENERAL, SPECIAL, UTILITY ENTERPRISE AND RESERVES FUNDS

INTRODUCTION

This report presents the Fiscal Year 2010-11 budget status update and the projected Fiscal Year 2011-12 budget for the Building Services, Shoreline Golf Links, Revitalization Authority (Authority), Shoreline Regional Park Community (Shoreline Community), Water, Wastewater and Solid Waste Management Funds, along with recommended rate adjustments for water, wastewater and trash utility services and a discussion of and recommendations for City reserves. Also included is the third-quarter update to performance measures (see Attachment A).

BACKGROUND AND ANALYSIS

OTHER GENERAL FUNDS

General Fund: Building Services

Building Services is a General Fund program, separated from the General Operating Fund with the adoption of the Fiscal Year 2006-07 budget in order to facilitate better tracking and accounting. This separation allows for an effective way to match revenues and expenditures and to provide the Building Division with sufficient support to sustain a consistent level of service throughout the fluctuations of the development cycle.

The current revenue estimate for Fiscal Year 2010-11 is $3.6 million, $404,000 (12.7 percent) higher than budget, with current fiscal year permit revenue exceeding budget by 19.5 percent and plan check revenue on target with budget. Development-related revenue is cyclical in nature and there is a timing difference for each project as plan check revenue is collected at the beginning of the development process and permit revenue is collected just prior to construction. The current level of development activity is about the same as the prior fiscal year.

The operating expenditures for the current fiscal year are estimated at $3.1 million, $298,000 (8.8 percent) less than budget, primarily the result of savings in salaries, benefits and supplies. Included in operating expenditures is $623,000 to reimburse the cost of administrative support by the General Operating Fund and $24,000 of support provided by other funds. In addition, Building Services contributed $200,000 to a capital improvement project (CIP) for the Permit Tracking System.

The fund is estimated to end the current fiscal year with a balance of $5.8 million and development activity appears to be tracking at the same level as the prior fiscal year.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (amounts in thousands):

	2009-10 Audited	2010-11 Adopted	2010-11 Estimated	2011-12 Recommended
Revenues:				
Investment Earnings	$ 195	172	166	133
Permits	2,305	2,000	2,389	2,747
Plan Checks	1,080	1,021	1,032	1,187
Other	18	-0-	10	-0-
Total Revenues	3,598	3,193	3,597	4,067
Operating Expenditures	2,948	3,379	3,081	3,561
Operating Balance	650	(186)	516	506
Retirees' Health UAAL	(388)	-0-	-0-	-0-
Capital Projects	(50)	(200)	(200)	(482)
Excess (Deficiency) of Revenues	212	(386)	316	24
Beginning Balance	5,242	5,454	5,454	5,770
Ending Balance	$5,454	5,068	5,770	5,794

The Fiscal Year 2011-12 recommendations include the following:

- Code Enforcement: $83,000 (ongoing)

  Charges a portion of a Code Enforcement Officer's and Attorney's time to Building Services for time spent on Building-related code enforcement issues. *Impact: Appropriately allocates staffing.*

Fiscal Year 2011-12 revenues are recommended at $4.1 million, $470,000 (13.1 percent) higher than the current fiscal year estimate as development activity is expected to increase over the current fiscal year. The increase is primarily due to expected development projects such as San Antonio Center and Google. Fiscal Year 2011-12 operating expenditures are recommended at $3.6 million, $182,000 (5.4 percent) higher than the current fiscal year adopted budget. No cost-of-living adjustment (COLA) is included for employee salaries, but retirement and health-care costs are increasing $98,900 (25.5 percent) compared to the current fiscal year adopted budget.

The fund is recommended to contribute $482,000 to CIPs, primarily to fund the conversion of records from microfiche to digital imaging. The fund is projected to end the 2011-12 fiscal year with an operating balance of $506,000 and an ending balance of $5.8 million.

General Fund: Shoreline Golf Links

Shoreline Golf Links is an 18-hole course designed by Robert Trent Jones II & Associates and was completed in 1983. The course is open to the public 364 days a year and managed by the City, which has funded major renovations over the past decade. Although Shoreline Golf Links is a General Fund program, it is tracked and reported separately for management information purposes and to provide a more comprehensive overview of its operations.

This operation was budgeted in Fiscal Year 2010-11 with a $812,000 gap between operating revenues and expenditures recognizing there would be budget savings to offset a portion of the deficit. The fund is estimated to end the current fiscal year with a deficit operating balance of $731,000, better than anticipated in the budget, but still significantly negative, depleting resources and requiring operational changes.

Total rounds peaked in Fiscal Year 2001-02 at 76,000 and have steadily declined to 67,600 (59,500 paid rounds) in Fiscal Year 2009-10. Total rounds for Fiscal Year 2010-11 are estimated at 59,800 (53,100 paid rounds), a decline of 6,400 paid rounds (10.8 percent) compared to the prior fiscal year. The 2010-11 adopted budget anticipated paid rounds would remain flat at approximately 62,000 rounds, generating $2.0 million in green fees. Paid rounds are comprised of regular rounds and frequent

player rounds. Compared to the prior fiscal year, regular rounds are estimated to decline 7,100 and frequent player rounds are estimated to increase by 700.

As previously discussed with Council, golf is an activity sensitive to the economy and the local unemployment rate remains higher than usual. The weather has also been a factor in the decline in paid rounds with an unusually wet winter season. Also, new golf courses have been constructed in the Bay Area over the past decade, creating more competition for business. The current fiscal year estimate includes green fee revenue of $1.6 million, 13.4 percent lower than the prior fiscal year. In addition, all other revenues (with the exception of dirt sales) are at or below both the prior fiscal year actual and the Fiscal Year 2010-11 adopted. Total revenues are estimated at $2.6 million compared to the $3.2 million adopted budget.

Current fiscal year operating expenditures are estimated at $3.4 million, $651,000 (16.2 percent) less than the budget of $4.0 million. This reflects savings in salaries resulting from position vacancies and miscellaneous operational savings. Included in operating expenditures is $366,000 to reimburse the cost of administrative support provided by the General Operating Fund. The Golf Links was financially unable to fund its entire share of the Retirees' Health UAAL of $1.5 million but funded its $129,000 annual share of the UAAL amortization. After taking into account the negative operating balance, the fund is estimated to use the remainder of its available balance.

Staff recently issued an RFP for a management agreement for the golf course, for Pro Shop and maintenance operations and, alternatively, for the Pro Shop only. Responses are due mid-May 2011. Staff will be returning to Council this summer to report on the results of the Request for Proposals (RFP). Council also directed staff to return at the same time with an alternative City operating model. Numbers on the next page for Fiscal Year 2011-12 reflect a status quo budget pending the results of the RFP process and development of a revised operating model to be approved by Council.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year status quo follows (amounts in thousands):

	2009-10 Audited	2010-11 Adopted	2010-11 Estimated	2011-12 Status Quo
Revenues:				
Investment Earnings	$ 43	24	13	-0-
Green Fees	1,850	1,959	1,603	1,861
Cart / Other Rental Fees	294	316	262	300
Driving Range	320	345	286	328
Retail Sales	296	401	247	300
Other	132	161	225	154
Total Revenues	2,935	3,206	2,636	2,943
Operating Expenditures	3,587	4,018	3,367	4,098
Excess (Deficiency) of Revenues	(652)	(812)	(731)	(1,155)
Beginning Balance	1,391	739	739	8
Ending Balance	$ 739	(73)	8	(1,147)

Status quo revenues for Fiscal Year 2011-12 are projected to total $2.9 million, $307,000 higher than the current fiscal year estimated revenue as the projection assumes an improved economy and that there will not be another year of heavy rainfall resulting in the number of rounds returning to Fiscal Year 2009-10 levels. Status quo operating expenditures are at $4.1 million.

Golf course equipment requires an annual equipment replacement contribution of $206,000 for Fiscal Year 2011-12. Also included in Fiscal Year 2011-12 operating expenditures is the Retirees' Health Unfunded Actuarial Accrued Liability (UAAL) annual amortization of $153,000 and $343,000 for reimbursement of administrative support provided by General Operating Fund departments, such as the City Manager's Office, City Attorney's Office, Finance and Administrative Services and Community Services Departments.

There are no Fiscal Year 2011-12 budget recommendations. However, use of $500,000 of transition funding from the General Fund Budget Contingency was presented to Council as part of the Budget Balancing Blueprint at the March 8, 2011 Council meeting. Staff has been gathering data and developing recommendations for alternative operating models and will be presenting the results of the RFP process and a revised City operating model to Council this summer.

SPECIAL FUNDS

Revitalization Authority Fund

The Authority was established in 1969 and is a legally separate governmental entity with the City Council acting as the governing board. The Authority has undertaken a number of projects and programs over the years to renovate and redevelop the downtown area of Mountain View to make it a focal point of the community. In 1995, the redevelopment plan was modified as required by a change in State law. As of 2003, the Authority can no longer issue debt and will not receive property tax increment once there is sufficient funding to repay all outstanding debt or after April 2019, whichever occurs first.

On September 11, 2007, Council amended the Downtown Revitalization Authority Plan to extend the life of the Authority's operations by two years to April 2011. The State allowed for this extension (SB 1096) because of the two fiscal years (Fiscal Years 2004-05 and 2005-06) that Educational Revenue Augmentation Fund (ERAF) III payments were taken from the Authority by the State to backfill education funding. On February 22, 2011, the Council approved an amendment to the Downtown Revitalization Authority Plan to extend the life of the Authority's operations an additional two years, to April 9, 2013. One additional year of the extension was provided for under the same Senate bill (SB 1096) and an additional year was allowed by the legislation (SB 1045) that required Fiscal Years 2009-10 and 2010-11 Supplemental Educational Revenue Augmentations Fund (SERAF) payments to the State. As part of the actions taken on February 22, 2011, the Council approved the following:

- Utilize approximately $4.7 million of the balance available for redevelopment purposes;

- Set aside approximately $822,000 of the balance to hold the school districts and other taxing entities harmless from the two-year extension;

- Create a Memorandum of Understanding between school districts and City / Authority agreeing to no further extensions; and

- Accumulate any additional excess revenue over expenditures for the repayment of existing outstanding debt.

The Governor's January proposed budget included the elimination of local redevelopment agencies in the State. Assembly Bill (AB 101) and Senate Bill (SB 77) have been introduced and have passed committee; however, to date, these bills have not been passed and other competing legislation has also been introduced. It is uncertain if these bills or any other bill will pass, but, if the legislation does pass as

currently proposed, all assets would be transferred to the City as the successor agency to the Authority. An oversight committee would be created to supervise the sale of the Authority's assets and the repayment of debt. In an effort to retain the funds to complete the sunsetting of the Authority and maintain the commitment to carry out programs and policies previously approved by Council on March 22, 2011, Council approved a series of actions, including a funding agreement between the City and the Authority. The funding agreement authorizes the Authority to transfer the available balance plus remaining CIP funding to a new CIP. However, in the event the State is not successful in eliminating local redevelopment agencies, these transactions may be reversed and normal operations of the Authority can resume until the Authority expires in April 2013.

In October 2010, the Council appropriated $1.6 million for the acquisition of the property at 449 Franklin Street, and the Authority executed documents for the purchase of this property. Due to some delays, the agreement has expired. On April 26, 2011, the Council authorized the purchase of the property and execution of related documents from the Authority or the City, depending on the outcome of the proposed legislation related to the elimination of redevelopment agencies.

Fiscal Year 2010-11 revenues for the Authority are estimated at $4.7 million, $330,000 less than the adopted budget of $5.0 million. Property taxes are the primary source of revenue for the Authority and are estimated at $4.5 million, $311,000 less than anticipated in the adopted budget. Fiscal Year 2010-11 secured and unsecured assessed value (AV) decreased a total of 5.5 percent, most but not all of which was anticipated in the budget.

Total current fiscal year operating expenditures for the Authority are estimated at $3.7 million, $379,000 (9.4 percent) below the adopted budget. As a redevelopment agency, the Authority is obligated to reserve and use 20.0 percent of annual property tax increment revenue to provide low- and moderate-income housing (Housing Set-Aside). Since property tax revenues are estimated to be lower than budget, the 20.0 percent set aside will also be lower than budget. Also included for Fiscal Year 2010-11 is the second SERAF payment of $345,000 that will be paid in May 2011. After funding capital improvement projects of $6.1 million, the Authority is estimated to end the current fiscal year with expenditures exceeding revenues by $5.4 million, an ending balance of $1.2 million and $161,000 of unappropriated bond proceeds and accrued interest for downtown capital improvements.

There is a $2.0 million note from the Shoreline Community, a debt incurred for the purchase of property located at the corner of California and Bryant Streets (across from Mountain Bay Plaza). This loan will be repaid with proceeds from the sale or lease of this property.

In Fiscal Year 2005-06, the Authority loaned $1.1 million to the Parking In-Lieu Fund, to be repaid as in-lieu fees are received. The funds were an additional contribution for the construction of the California/Bryant Parking structure. Loan repayments have been made since then and the current outstanding loan balance is $305,000.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (amounts in thousands):

	2009-10 Audited	2010-11 Adopted	2010-11 Estimated	2011-12 Recommended
Revenues:				
Property Taxes	$4,970	4,783	4,472	4,441
Investment Earnings	288	237	218	182
Total Revenues	5,258	5,020	4,690	4,623
Expenditures:				
Operating	565	1,193	876	842
20% Set-Aside	994	957	894	888
Debt Service	1,509	1,737	1,721	1,737
Loan Payment	166	165	166	-0-
Total Expenditures	3,234	4,052	3,657	3,467
Operating Balance	2,024	968	1,033	1,156
SERAF	(1,670)	(345)	(345)	-0-
Retirees' Health UAAL	(39)	-0-	-0-	-0-
Capital Projects	(50)	225	(6,093)	(8)
Excess (Deficiency) of Revenues	265	848	(5,405)	1,148
Beginning Balance	6,517	6,782	6,782	1,377
Bond Proceeds	(136)	(154)	(161)	(172)
Ending Balance	$6,646	7,476	1,216	2,353

The Fiscal Year 2011-12 expenditure recommendations are listed below:

- Thursday Night Live: $45,000 (limited-period)

  Provides limited-period funding for the continuation of the Thursday Night Live events for 2011. *Impact: Continues funding for Thursday Night Live events.*

- Sunsetting Studies and Projects: $255,000 (estimated balance to rebudget)

  Rebudgets the balance of funding available (from $625,000) to continue with the studies and projects related to the sunsetting of the Revitalization Authority. *Impact: Provides resources to complete projects and studies.*

Fiscal Year 2011-12 revenues are projected at $4.6 million, $67,000 (1.4 percent) lower than the current fiscal year estimate. Combined secured and unsecured property taxes are projected with a net 2.8 percent decline compared to the current fiscal year estimated property taxes. All secured property (excluding transfers in ownership and new development) will increase 0.753 percent, reflecting the California Consumer Price Index (CCPI) from October 2009 to October 2010 and a 6.0 percent AV decline is included for some secured commercial property. There were minimal changes of ownership during calendar year 2010 and unsecured property tax is projected to decline 10.0 percent. Final information regarding property taxes for the 2011-12 fiscal year will not be available from the County of Santa Clara (County) Assessor's Office until after July 1. Investment earnings are projected to decline slightly due to the reduced portfolio yield.

Expenditures are recommended at $3.5 million, including $240,000 for the Authority's allocation of administrative support provided by the General Operating Fund. Projected revenues are anticipated to exceed recommended operating expenditures by $1.1 million and after funding $8,000 in CIPs, the fund is projected to end Fiscal Year 2011-12 with an ending balance of $2.4 million and unappropriated bond proceeds of $172,000.

Revitalization Authority Set-Aside

The Revitalization Authority Housing Set-Aside Fund is a subset of the Revitalization Authority Fund. State law mandates that a housing set-aside requirement equivalent to 20.0 percent of the Authority's annual property taxes is to be used for the provision of low- and moderate-income housing. As of June 30, 2010, the Housing Set-Aside Fund had a balance of $11.2 million, including $6.0 million of bond proceeds from the 2003 low-/moderate-income housing debt issue, the accumulation of annual 20.0 percent Set-Aside funds and investment earnings.

On June 22, 2010, the Council approved and authorized a series of actions related to the Downtown Family Development Project to be funded from a combination of Community Development Block Grant (CDBG), Below-Market-Rate (BMR) in-lieu fees, Housing Impact fees and Housing Set-Aside funds. For the July 2010 tax credit cycle, the developer, ROEM, was unsuccessful in obtaining the 9.0 percent tax credit due to the competitive nature of the tax credit program. On March 8, 2011, the Council took additional actions and increased the funding for the Downtown Family Development Project to improve the developer's chances of being granted the 9.0 percent tax credit in the March 2011 cycle. The Council also appropriated additional funding and replaced other funding sources with Housing Set-Aside funds due to the impending threat of the elimination of redevelopment agencies. Total funds appropriated for this project from Housing Set-Aside funds is $10.6 million. The payment of ground lease revenue will occur in April and will be $3.5 million, $1.2 million to be funded from CDBG and $2.3 million from Housing Set-Aside funds. The remaining $8.3 million of Housing Set-Aside funds will be encumbered, but not expended prior to the end of the fiscal year.

In Fiscal Year 2006-07, the Authority loaned Housing Set-Aside funds to Mid-Peninsula Housing Coalition for the Paulson Park Apartments projects. The 104 very low-income residential units are fully leased and the outstanding balance of the loan is $850,830.

Fiscal Year 2010-11 revenues are estimated at $1.2 million, $82,000 (6.3 percent) lower than the $1.3 million adopted budget. Expenditures are estimated at $3.0 million, $114,000 (3.6 percent) lower than the adopted budget of $3.2 million. For Fiscal Year 2010-11, $2.4 million was budgeted for predevelopment and construction of the Downtown Family Development Project. With the above-mentioned changes recommended by staff and approved by Council, $2.3 million will be spent in the current fiscal year for the ground lease. The fund is estimated with an ending balance of $9.4 million of which $8.3 million will be encumbered, but not spent by fiscal year end, for construction of the Downtown Family Development Project.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (amounts in thousands):

	2009-10 Audited	2010-11 Adopted	2010-11 Estimated	2011-12 Recommended
Revenues:				
Investment Earnings	$ 447	343	324	243
Transfer from Revitalization Authority / Property Taxes	994	957	894	888
Total Revenues	1,441	1,300	1,218	1,131
Expenditures:				
Operating	119	2,550	2,436	125
Debt Service	607	607	607	606
Total Expenditures	726	3,157	3,043	731
Operating Balance	715	(1,857)	(1,825)	400
Retirees' Health UAAL	(5)	-0-	-0-	-0-
Excess (Deficiency) of Revenues	710	(1,857)	(1,825)	400
Beginning Balance	10,526	11,236	11,236	9,411
Ending Balance	$11,236	9,379	9,411[1]	9,811[1]

[1] $8.3 million of this balance is encumbered for construction of the Downtown Family Rental Housing Project.

There are no expenditure recommendations for Fiscal Year 2011-12.

Fiscal Year 2011-12 revenues are projected at $1.1 million and include investment earnings and the 20.0 percent Housing Set-Aside property tax increment. Expenditures of $731,000 are recommended. Funding of $8.3 million for construction of the Downtown Family Development Project will be encumbered and carried forward to Fiscal Year 2011-12, ultimately reducing the projected ending balance of $9.8 million to $1.5 million.

Shoreline Regional Park Community Fund

The Shoreline Community was created in 1969 for the development and support of the Shoreline Regional Park and the surrounding North Bayshore Area. This fund has traditionally been in a relatively strong financial position with sufficient resources to finance expenditures, including significant capital improvements. As a result of the dot.com recession and the resulting high vacancy rate, total AV declined 22.0 percent over the three-year period of Fiscal Year 2002-03 to Fiscal Year 2004-05. Since then, AV and property tax revenues have recouped the previous losses and grown steadily. However, the July 1, 2010 tax roll reflected a 10.7 percent decline in AV (0.17 percent secured AV decline and 25.1 percent unsecured AV decline) compared to the prior fiscal year tax roll.

Total estimated revenues for the current fiscal year are $27.1 million, $1.8 million (6.4 percent) lower than budgeted revenues of $28.9 million, the net of lower property taxes and higher investment earnings. Property taxes were anticipated to decline but not to the level that has occurred.

Total expenditures are estimated at $21.7 million, $3.0 million higher than the current fiscal year's adopted budget of $18.7 million. This estimate includes the operating expenditures, administrative overhead reimbursement, interagency agreements and loan/debt service payments. The interagency agreements include the payments to the County in accordance with the agreement authorized in December 2004 and contributions to the Joint Powers Agreement (JPA) with the Mountain View Whisman School District (MVWSD) and the Mountain View-Los Altos Union High School District (MVLAUHSD) as approved by Council in February 2006. Capital projects were adopted at $796,000, but $125,000 of grant funding was later received to offset the original budgeted amount.

After various meetings involving City staff, school district staff, a school parent group, the JPA Board and the City Council/Shoreline Community Board, on March 22, 2011 an amendment to the JPA was approved for interim funding comprised of one-time and enhanced JPA contributions from the Shoreline Community to MVLAUHSD and MVWSD for Fiscal Years 2010-11, 2011-12 and 2012-13 as detailed in the table below. This agreement results in a $3.0 million higher payment to the school districts than was originally budgeted for in the current fiscal year.

District	FY 2010-11	FY 2011-12	FY 2012-13	
MVWSD:				
Current JPA	$ 464	-	-	
Enhanced JPA (Est.)	-	$1,116	$1,130	MVWSD
One-time Payments	$1,829	$1,829	$1,829	3-Year Total
Total:	$2,293	$2,945	$2,959	$8,197
MVLAUHSD:				
Current JPA	$ 464	-	-	
Enhanced JPA (Est.)	-	$ 715	$ 724	MVLAUHSD
One-time Payments	$1,171	$1,171	$1,171	3-Year Total
Total:	$1,635	$1,886	$1,895	$5,416
		Total to School Districts:		**$13,613**

* Dollars in Thousands

The fund is estimated to end the current fiscal year with a balance of $17.9 million, in addition to setting aside $10.0 million for strategic investments, which is desirable to fund major capital improvement projects and potential environmental obligations in the Shoreline Community.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (amounts in thousands):

	2009-10 Audited	2010-11 Adopted	2010-11 Estimated	2011-12 Recommended
Revenues:				
Property Taxes	$29,102	26,845	24,773	23,485
Investment Earnings	1,430	1,162	1,333	1,108
Bond Repayment	750	708	708	707
Other	729	190	244	209
Total Revenues	32,011	28,905	27,058	25,509
Expenditures:				
Operating	8,729	8,773	8,581	8,966
Interagency Agreements	3,202	3,062	6,235	7,091
Debt Service	4,949	4,949	4,941	7,445
Loan Payment	1,894	1,894	1,894	1,894
Total Expenditures	18,774	18,678	21,651	25,396
Operating Balance	13,237	10,227	5,407	113
Capital Project Refunds	8,100	-0-	-0-	-0-
Contribution to Water Fund	(8,100)	-0-	-0-	-0-
Retirees' Health UAAL	(574)	-0-	-0-	(42)
Capital Projects	(3,365)	(796)	(671)	(1,484)
Excess (Deficiency) of Revenues	9,298	9,431	4,736	(1,413)
Beginning Balance	13,870	23,168	23,168	27,904
Strategic Investment / Property Acquisition Reserve	-0-	(10,000)	(10,000)	(10,000)
Ending Balance	$23,168	22,599	17,904	16,491

The Fiscal Year 2011-12 recommendations include the following:

- Water Cost Increase: $40,000 (ongoing)

  Provides increased funding for increased water costs associated with the proposed water rate increase. *Impact: Provides funding for water rate increases.*

- Wildlife Management: $14,000 (estimated balance to rebudget)

  Rebudgets the balance of funds available for wildlife management efforts in the North Bayshore Area. *Impact: Provides resources to continue wildlife management efforts.*

- PG&E Cost Increase: $4,000

  Provides increased funding for gas and electric costs based on usage. *Impact: Provides funding for gas and electricity.*

- Major Capital Improvement Projects:

  — Shoreline Transportation Study: $500,000

  — Landfill Infrastructure Master Plan: $250,000

  — Shoreline Infrastructure Maintenance: $216,000

  — Shoreline Pathway, Roadway, Parking Improvements: $173,000

Overall, revenues for the 2011-12 fiscal year are projected to be $25.5 million, $1.6 million less than the current fiscal year estimate of $27.1 million, primarily resulting from the inclusion of an estimated 6.0 percent reduction in secured AV for some commercial property, 10.0 percent decrease in unsecured AV and the projected lower investment yield. Final information regarding next fiscal year's tax roll will not be available from the County Assessor's Office until after July 1. The County has a backlog of assessment appeals and it is unknown how many commercial properties the County will be able to review, but it is projected the County Assessor will process some reductions for commercial properties for the upcoming fiscal year and staff anticipates further reductions will occur in Fiscal Year 2012-13. In total, property taxes are projected to be $1.3 million lower than the current fiscal year estimate.

Recommended expenditures are $25.4 million and include operating, reimbursement of public safety services and administrative support provided by the General Operating Fund, interagency payments and debt service/loan payments. In addition, the

Shoreline Community is recommended to fund $1.5 million in capital improvement projects and $42,000 towards funding the unfunded Retirees' Health liability. As part of the short-term agreements with the school districts, the Shoreline Community will be undertaking several studies to assess the long-term obligations of the Shoreline Community, particularly related to the landfills, transportation and sea level rise.

Currently under review are potential strategic economic development initiatives that could involve investment in projects or land acquisition, and $10.0 million of the available balance is recommended to be reserved for this purpose. The projected ending balance for Fiscal Year 2011-12 is $16.5 million. Demands on this fund have risen and revenues have declined in the current fiscal year, but the fund is in a good financial position.

Tax allocation bonds are planned to be issued early next fiscal year to fund the construction of Fire Station No. 5, Permanente Creek and the athletic fields project if approved by Council. Staff will be returning to Council in May for authorization to issue bonds for these projects.

UTILITY FUNDS
WATER, WASTEWATER, SOLID WASTE MANAGEMENT

The City's enterprise utility funds are fully funded by the rates charged to customers; there is no General Fund support to the utility funds. In a July 2006 California Supreme Court decision (Bighorn), the Court ruled that utility rates charged by governmental entities for water, sewer and refuse services are considered property-related fees and are subject to the procedural requirements of Proposition 218, Article 130 of the California Constitution. Proposition 218 (as now interpreted) requires governmental agencies that charge for utility services to conduct a majority protest hearing prior to adopting any changes in utility rates. A notice must be mailed no later than 45 days prior to the public hearing, include the proposed rate adjustment, the calculation methodology and describe the process for submitting a protest vote to the rate adjustments.

The legislation provided for future rate increases within prescribed limits to be approved without holding a hearing each year for up to an additional four years. The notices sent out April 24, 2009 (two years ago) provided for future inflationary increases and increases for pass-through costs. For Fiscal Year 2011-12, the recommended rate increases for water and wastewater rates fall within the pass-through and inflationary guidelines and, therefore, a Proposition 218 hearing is not required for these two utility services. However, the recommended rate for the Solid Waste Utility Fund is slightly above the prescribed limits and requires a Proposition 218 hearing. Staff will be mailing the Proposition 218 rate notices for the recommended solid waste rate increase on April 29, 2011. This mailing also includes notification of the recommended rate changes for water and wastewater.

Water Enterprise Fund

The Water Enterprise Fund accounts for the revenues and expenditures associated with the provision of retail water service to Mountain View residents and businesses. The City provides water service to approximately 96.0 percent of water customers within the City limits while the California Water Service Company (a private company) provides service to approximately 4.0 percent of water customers in a few previously unincorporated neighborhoods. Water for the City's system is obtained primarily (88.0 percent) from the San Francisco regional water (Hetch-Hetchy) system operated by the San Francisco Public Utilities Commission (SFPUC). Water is also purchased from the Santa Clara Valley Water District (SCVWD) (8.0 percent) and obtained from City-owned wells (4.0 percent). The primary costs associated with water service are the purchase of water, staffing to operate and maintain the system, ongoing maintenance and major capital replacement and improvement projects. Charges for services are designed to fully fund ongoing annual costs and a base level of annual capital improvement projects as well as to maintain an adequate reserve.

A 5.0 percent rate adjustment was implemented for Fiscal Year 2010-11, primarily due to an increase in wholesale water costs of 15.2 percent from the SFPUC. This provider's significant rate increase translated into a 7.5 percent rate increase. However, given the state of the economy and financial considerations facing the citizens and businesses of Mountain View, a 5.0 percent rate increase was adopted. Current estimated revenues for Fiscal Year 2010-11 are $20.3 million, approximately $826,000 (3.9 percent) lower than budget. Water sales are estimated to be $1.1 million below budget and recycled water revenue is estimated to be $173,000 higher than budget.

Expenditures for the current fiscal year are estimated at $17.8 million, $1.4 million less than the budget of $19.2 million. Water purchases are estimated at $865,000 below budget and staff strives to reduce expenditures as low as possible, creating estimated operating savings of $498,000. In addition, there is $1.7 million of funding for capital projects. The fund is estimated to end the fiscal year with reserves of $6.2 million and an ending balance of $2.2 million.

A new 25-year water supply agreement between the City and the SFPUC became effective as of July 1, 2009. The agreement provides to Mountain View a perpetual supply of 13.46 million gallons per day (m.g.d.); the supply will be limited to 11.43 m.g.d. from July 1, 2011 through June 30, 2018 to protect SFPUC water sources and limit demands during construction of the Hetch-Hetchy water system improvements. The agreement includes a minimum purchase requirement for the City and given the extremely wet winter combined with community conservation efforts and increasing recycled water consumption, the minimum purchase requirement for Fiscal Year 2010-11 may not be met. If the minimum is not met, there could be a required additional

payment that will negatively impact this fund. Staff is working with the SFPUC to reduce the minimum purchase requirement in light of the interim supply limitation.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (amounts in thousands):

	2009-10 Audited	2010-11 Adopted	2010-11 Estimated	2011-12 Recommended
Revenues:				
Investment Earnings	$ 730	552	530	456
Water Sales	17,038	19,286	18,182	23,482[1]
Recycled Water Sales	518	460	633	600
Other	2,231	809	936	813
Total Revenues	20,517	21,107	20,281	25,351
Expenditures:				
Operating	9,316	8,167	7,669	8,411
Water Purchases	8,311	10,108	9,243	13,556[2]
Loan Repayment— Recycled Water	300	300	300	300
Debt Service	630	634	634	634
Total Expenditures	18,557	19,209	17,846	22,901
Operating Balance	1,960	1,898	2,435	2,450
Capital Contributions/Loan	16,539	-0-	-0-	-0-
Recycled Water Project`	(16,552)	-0-	-0-	-0-
Retirees' Health UAAL	(1,216)	-0-	-0-	-0-
Capital Projects	(3,420)	(1,534)	(1,674)	(1,870)
Excess (Deficiency) of Revenues	(2,689)	364	761	580
Beginning Balance	10,334	7,645	7,645	8,406
Reserves	(6,165)	(6,177)	(6,177)	(7,095)
Ending Balance	$ 1,480	1,832	2,229	1,891

[1] Based on rate adjustment of 23.0 percent.
[2] Based on the proposed 47.4 percent increase in wholesale water costs by the SFPUC, 7.9 percent proposed increase for treated water and 9.4 percent proposed increase for well water by the SCVWD.

The major factors that influence rate setting for the Water Fund are: (1) the cost of wholesale water; (2) water consumption level; (3) annual operating costs; and (4) level of capital improvements. The cost of water purchases from the SFPUC and other water sources (approximately 60.8 percent of projected expenditures) has been subject to major fluctuations for more than a decade and has caused the City's retail water rate adjustments to vary significantly.

The wholesale cost of water is expected to continue to require significant increases over the next five years due to the $4.6 billion project to restore the aging Hetch-Hetchy water system. The SFPUC has proposed a rate increase of 47.4 percent effective July 1, 2011 and is projecting rate increases of 5.7 percent, 14.2 percent, 16.9 percent and 8.4 percent per year through Fiscal Year 2015-16 to pay for the capital costs of this major and necessary project. The enormous rate increase for Fiscal Year 2011-12 is not only due to this major project but also due to the SFPUC not meeting its revenue projections due to lower water usage, which is attributable to the last two very wet years and ongoing conservation effects. SCVWD is proposing a 7.9 percent rate increase for treated water and a 9.4 percent rate increase for well water for Fiscal Year 2011-12.

Water consumption is a significant factor in the revenues generated by this fund. In the drought of the early 1990s, reduction in water usage was encouraged. Significant rate increases were implemented to fund fixed operating costs spread over a lower number of water units sold. For several years in the late 1990s, water consumption exceeded projections, which allowed for the funding of Water Master Plan projects from existing resources rather than having to issue debt to finance these projects. In June 2008, due to court-ordered water transfer restrictions, very low snow melt runoff and two years of below-average rainfall, the Governor declared a State-wide drought and issued an Executive Order, encouraging local water agencies to promote water conservation. Pursuant to this order, the SFPUC and SCVWD requested voluntary reductions in water consumption. The past two winters have experienced above-average rainfall and staff anticipates all voluntary water conservation will be lifted.

Recycled water deliveries began in June 2009; however, in part due to operational delays at the Palo Alto Regional Water Quality Control Plant (PARWQCP) which processes and delivers the recycled water, actual usage of recycled water was lower than original projections. The projection for Fiscal Year 2010-11 was lowered, but the current estimate is exceeding this projection. Revenues from the recycled water program covers the cost of the loan repayment ($300,000) and recycled water program operating costs ($283,000).

Annual capital project funding of $1.5 million is included in the annual rate calculation as the three-year rolling average of annual projects. The policy is, if in any fiscal year capital projects are more or less than this amount, the difference is accounted for by an

increase or decrease in Water Fund reserves. However, there are no funds in excess of policy to fund additional capital projects. In addition, the reserve policy is based on a percentage (10.0 percent for emergencies, 5.0 percent for contingencies and 10.0 percent for rate stabilization) of operating expenditures and, as expenditures rise, so does the reserve requirement.

The Fiscal Year 2011-12 expenditure recommendations include the following.

- Rate Study: $50,000 (limited-period)

  Provides limited-period funding to conduct a rate study. Staff is proposing a comprehensive review of the rate structure for water and sewer rates. The last evaluation of the utility rate structure was done in 1998. Since that time, certain ongoing fixed costs are not being met and due to wholesale water rate increases, the first-tier rate for residential customers is not recovering the cost of water. *Impact: Provides resources to commission a rate study*.

- BAWSCA Membership Dues: To be determined (ongoing)

  Provides funding for the increase in dues to the City's membership in the Bay Area Water Supply and Conservation Agency (BAWSCA) which represents the interest of 25 agencies and 2 private water companies that purchase wholesale water from the San Francisco regional (Hetch-Hetchy) water system operated by the SFPUC. *Impact: Maintains membership in BAWSCA*.

- SFPUC Water Management Charge: $52,200 (limited-period)

  Provides funding for the charge to BAWSCA member agencies to fund Phase IIA of the Long-Term Reliable Water Supply Strategy. This charge is scheduled to end December 2011. *Impact: Provides funding for the assessed charges.*

- City Utilities: $7,000 (ongoing)

  Provides increased funding for increased water and trash costs associated with the recommended water and trash rate increases. *Impact: Maintains desired level of service.*

- Hardware/Software Maintenance: $4,500 (ongoing)

  Provides additional funding for cost increases associated with hardware and software maintenance. *Impact: Maintains hardware/software maintenance.*

- Water Conservation: -$45,000 (ongoing)

  Reduces funding for water conservation efforts. This funding was used for start-up efforts for the water conservation program. The program began two years ago and these start-up funds can now be removed from the budget. *Impact: Eliminates funding previously used for start-up efforts.*

- Major Capital Improvement Projects:

  — Miscellaneous Water Main / Service Line Replacement: $1,440,000

  — Annual Water System Improvements: $314,000

For Fiscal Year 2011-12, a 23.0 percent rate increase is recommended to fund the proposed 47.4 percent increase in SFPUC wholesale water costs, the proposed 7.9 percent and 9.4 percent increase in SCVWD treated and well water costs, respectively, and increases in the recommended operating costs. Staff has attempted to manage recommended rate increases to the lowest level possible since the economic downturn that began in late 2008 and has recommended rates below what has been needed to offset wholesale rate increases (as can be seen in the table below). (A comparison of the current rates and the recommended rates are included in Attachment B and recommended fee modifications are included in Attachment C.)

From Fiscal Year 2008-09 through Fiscal Year 2011-12, wholesale water rate increases (in percentages) are as follows:

Fiscal Year	**SFPUC**	**SCVWD**	**CMV**
2008-09	10.0	7.8	5.0
2009-10	15.4	0.0	5.0
2010-11	15.2	0.0	5.0
2011-12*	47.4	7.9 treated / 9.4 well	23.0

*SFPUC and SCVWD proposed rate increase, CMV recommended rate increase.

As a result of the significant cost increases to wholesale water, water purchases are increasing from 50.0 percent to 60.8 percent of the operating budget over the four-year period noted above. The City's rate increases have been lower than wholesale rate increases which has resulted in the first-tier residential rate being lower than the cost of wholesale water from the SFPUC beginning in the current fiscal year. Although it may be appropriate to subsidize consumers who conserve water, the long-term impact of not

recovering the basic cost of water needs to be analyzed along with the level of the tiers for conservation efforts. Another unknown factor is the fixed costs associated with maintaining the water system. These fixed costs should be substantially recovered through what is currently the meter charge and staff is concerned the current meter charge is insufficient to cover these fixed costs. The last rate study was commissioned in 1998; therefore, staff is recommending a rate study be conducted in the upcoming fiscal year to review the City's water rate structure.

Fiscal Year 2011-12 projected revenues, with the recommended 23.0 percent rate adjustment, are $25.4 million and recommended expenditures are $22.9 million (after eliminating the budget effect of depreciation expense). Included in expenditures is the 47.4 percent rate increase in wholesale water costs from the SFPUC and a 7.9 percent and 9.4 percent rate increase in treated and well water costs, respectively, from SCVWD.

The operating balance of $2.5 million is recommended to fund the base level of capital projects and increase in reserve due to the water cost increase. This results in a reserve balance of $7.1 million, and the Fiscal Year 2011-12 ending balance is projected to be $1.9 million.

Future fiscal year rates are anticipated to be impacted by the continued projected rate increases for implementation of the SFPUC capital improvements to the Hetch-Hetchy system. The SFPUC has provided estimated future water rate increases of 5.7 percent, 14.2 percent, 16.9 percent and 8.4 percent for Fiscal Years 2012-13 to 2015-16, respectively. Also, additional future funding may be necessary as the City replaces current meters with remote-read capable meters to read meters more efficiently. Staff is currently purchasing remote-read capable meters with the annual capital project for routine meter replacements. Eventually, when there are sufficient remote-read capable meters, this investment in capital should result in decreased staffing needs over time. In addition, the recent Water Master Plan update identified the need to accelerate water main replacements. The current inventory of water mains is falling behind the replacement cycle. Staff is analyzing cost and recommending incrementally increasing the Capital Improvement Program budget by $1.0 million for water main replacement over the next four years.

Wastewater Enterprise Fund

The Wastewater Enterprise Fund is the utility fund that accounts for the costs and revenues associated with the collection, transportation and treatment of liquid wastes generated from all residences and businesses in the City. Other associated functions included in this fund are the Hazardous Materials Permit Program and the Industrial Liquid Waste Management Program. Expenditures in the Wastewater Fund include the construction and maintenance of sanitary sewer lines, storm water lines and pump

stations, the City's share of costs associated with the operation of the Palo Alto Regional Water Quality Control Plant (PARWQCP), in which the City is a partner, and personnel costs for the operation and maintenance of the system. This fund is affected by costs associated with stringent requirements for treatment plant and storm water discharges into the San Francisco Bay and fluctuations in water usage. Revenues are partially governed by the amount of water used by commercial dischargers in the City each fiscal year.

Wastewater rates were unchanged for Fiscal Year 2010-11. Estimated revenues for the current fiscal year are $14.6 million, $251,000 (1.7 percent) below the budget of $14.9 million, mainly due to wastewater service charges being below budget.

Operating expenditures are currently estimated at $10.0 million, $2.9 million (22.0 percent) lower than the $12.9 million originally budgeted due to savings in salaries and services and lower than budgeted wastewater treatment costs. Each fall, an annual reconciliation of the prior fiscal year's actual treatment costs (based on volume) is performed by the PARWQCP, and an adjustment is provided to each member agency. The City's share of actual expenditures of the treatment plant were lower than budget, resulting in a credit of $2.2 million received this fiscal year for last fiscal year that is reflected in the estimate for the current fiscal year.

In addition, there is $1.9 million in annual capital maintenance projects. The fund is estimated to end the fiscal year with a reserve balance of $6.0 million and an ending balance of $9.1 million. The reserve balance is higher than the required policy balance and in the future could be drawn upon to supplement ongoing annual capital projects above the base level built into the rates.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (amounts in thousands):

	2009-10 Audited	2010-11 Adopted	2010-11 Estimated	2011-12 Recommended
Revenues:				
Hazardous Materials / Fire Safety Permits	$ 420	425	421	425
Investment Earnings	552	462	452	405
Wastewater Service	13,648	13,859	13,605	12,925[1]
Other	319	105	122	103
Total Revenues	14,939	14,851	14,600	13,858
Expenditures:				
Operating	4,093	5,432	4,788	5,659
Wastewater Treatment	5,750	7,448	5,252[2]	7,537
Total Expenditures	9,843	12,880	10,040	13,196
Operating Balance	5,096	1,971	4,560	662
Retirees' Health UAAL	(180)	-0-	-0-	-0-
Capital Projects	(1,665)	(1,574)	(1,854)	(1,681)
Excess (Deficiency) of Revenues	3,251	397	2,706	(1,019)
Beginning Balance	9,186	12,437	12,437	15,143
Reserve	(5,984)	(6,043)	(6,043)	(5,947)
Ending Balance	$ 6,453	6,791	9,100	8,177

[1] Based on a recommended 5.0 percent rate decrease.
[2] Includes $2.2 million credit for the prior fiscal year.

The Fiscal Year 2011-12 expenditure recommendations include the following:

- Rate Study: $50,000 (limited-period)

  Provides limited-period funding to conduct a rate study. Staff is proposing a comprehensive review of the rate structure for the water and sewer rates. The last evaluation of the utility rate structure was done in 1998. *Impact: Provides resources to commission a rate study.*

- Water Cost Increase: $6,000 (ongoing)

  Provides increased funding for increased water costs associated with the recommended water rate increase. Water usage is for a rest room and irrigation around the pump station as well as flushing sewer lines. *Impact: Maintains desired level of service.*

- Major Capital Improvement Projects:

  — Miscellaneous Storm / Sanitary Sewer Main Replacement: $1,405,000

  — Wastewater System Improvements: $141,000

Costs for the PARWQCP are estimated to increase 1.2 percent, resulting in the cost of wastewater treatment to be 57.0 percent of the total recommended operating expenditures. Expenditures at the treatment plant were decreased in the current fiscal year due to labor savings and savings from operating costs. In addition, one-time savings have occurred as reflected in the $2.0 million credit received in the prior fiscal year and the $2.2 million credit received in the current fiscal year. These one-time credits have had a positive effect on the balance available for this fund.

A 5.0 percent rate decrease is recommended for Fiscal Year 2011-12 due to the $4.2 million in credits received for the prior two fiscal years. This rate decrease is directly related to the one-time savings; therefore, any increases in treatment costs in the future may require a corresponding rate increase in that fiscal year. For rate-setting purposes, a $1.6 million base level of annual maintenance capital projects is assumed for Fiscal Year 2011-12. An alternative to the recommended 5.0 percent rate decrease is to have no rate adjustment for Fiscal Year 2011-12. While with a rate decrease, it is more likely rates will need to increase again in the following fiscal year; if rates remain unchanged, it is possible the rate for the following fiscal years could remain the same or may require a lesser increase.

As with the Water Fund, there are uncertainties that may affect future rates. In May 2010, Council approved the Regional Water Quality Control Plant Salt Reduction

Policy. The policy affirmed the City's commitment to reduce the salt content of recycled water to 600 parts per million, identifying and eliminating sources of salt. Staff from the City of Mountain View and the City of Palo Alto are surveying sewer lines in the North Bayshore Area to identify the sources of highly saline groundwater infiltration. Staff is developing a scope of work and estimated cost of repairing the sewer lines, and anticipates requesting a midyear capital improvement project in Fiscal Year 2011-12.

In October 2009, the California Regional Water Quality Control Board—San Francisco Bay Region (CRWQCB) adopted a new Regional Storm Water Permit which requires the City to implement numerous storm water pollution control programs and activities impacting City operations. Examples include additional inspections, monitoring and reporting from water utility and pump station operations, as well as mechanical treatment devices that will be installed and will require maintenance in the City storm drain system. In January 2010, staff began additional monitoring and trash removal at the five storm water pumping stations. Additional chlorine, pH and turbidity monitoring and reporting is required for water flushing operations. By November 2012, the City is required to install full trash-capture devices within the storm drain system to trap run-off from at least 112 acres, 30.0 percent of the retail commercial area, as prescribed by the Regional Storm Water Permit. Long-term trash reduction goals are also included in the Regional Storm Water Permit. The City may be required to install and maintain additional devices within the storm drain system to comply with this long-term goal.

This requirement will affect the operations in a number of City divisions, including wastewater operations, which will be required to maintain additional City infrastructure. Additional resources may be required to comply with this requirement. Staff is currently evaluating the impacts to comply with these new regulations and will present Council with recommendations during next fiscal year's budget process. The storm drain program will be reviewed during the upcoming fiscal year for operational needs and funding requirements.

Based on the recommended 5.0 percent rate decrease, revenues for next fiscal year are projected at $13.9 million and recommended operating expenditures are $13.2 million (after eliminating the budget effect of depreciation expense), leaving an operating balance of $662,000. In addition, there is $1.7 million of funding for capital projects, resulting in total expenditures exceeding revenues by $1.0 million. A reserve balance of $5.9 million and an ending balance of $8.2 million are projected at the end of Fiscal Year 2011-12.

Solid Waste Management Enterprise Fund

The Solid Waste Management Enterprise Fund is the utility fund that accounts for the revenues and expenditures for solid waste-related services, including refuse collection and disposal, recycling services, street sweeping and maintenance of two of the City's three closed landfill sites.

Refuse generated in the City is transported to the SMaRT® Station (of which we are one of three partners) for removal of recyclables with the remaining refuse transported for final disposal at the Kirby Canyon Landfill in South San Jose. The City provides a variety of services through an outside contractor (Recology) for the collection of refuse and recyclables. The City bills and collects all revenues for solid waste services.

A general rate increase of 8.0 percent was adopted for Fiscal Year 2010-11. Current City revenue estimates for Fiscal Year 2010-11 are $9.9 million compared to the budget of $10.0 million. Refuse service charges are trending $157,000 lower than budget. As noted in last fiscal year's Narrative Budget Report, a 12.0 percent rate increase would have been required in order not to draw down on the available balance in this fund. However, given the economic climate, the rate was recommended as low as financially prudent. Although demand for service is still down, this fund is estimated to end the fiscal year in a better financial position than originally adopted.

City expenditures are estimated at $9.6 million, $615,000 (6.0 percent) less than the adopted budget of $10.2 million. The reconciliation for Fiscal Year 2009-10 SMaRT Station costs were less than budgeted, resulting in a credit to the City of $215,000 and is reflected in the current fiscal year estimate. There are also savings estimated in salaries, services and supplies accounts.

Operating revenues are projected to exceed operating expenditures by $248,000, which will be used to fund $488,000 in capital projects. At the end of the current fiscal year, the fund is estimated with a reserve balance of $2.6 million and an ending balance of $1.3 million.

A comparison of the prior fiscal year audited, current fiscal year adopted and estimated, and the upcoming fiscal year recommended follows (amounts in thousands):

	2009-10 Audited	2010-11 Adopted	2010-11 Estimated	2011-12 Recommended
Revenues:				
Investment Earnings	$ 143	141	108	96
Refuse Service Charges	8,929	9,685	9,528	10,248[1]
Other	316	216	218	216
City Revenues	9,388	10,042	9,854	10,560
Recology Revenues[2]	10,431	11,081	10,950	11,465
Total Revenues	19,819	21,123	20,804	22,025
Expenditures:				
Operating	3,732	4,087	3,847	4,204
Disposal and SMaRT Station Charges	6,209	6,134	5,759[3]	6,157
City Expenditures	9,941	10,221	9,606	10,361
Recology Payments[6]	10,431	11,081	10,950	11,465
Total Expenditures	20,372	21,302	20,556	21,826
Operating Balance	(553)	(179)	248	199
Retirees' Health UAAL	(53)	-0-	-0-	-0-
Capital Projects	(493)	(423)	(488)	(246)
Excess (Deficiency) of Revenues	(1,099)	(602)	(240)	(47)
Beginning Balance	5,244	4,145	4,145	3,905
Reserves	(2,551)	(2,589)	(2,589)	(2,609)
Ending Balance	$ 1,594	954	1,316	1,249

[1] Based on a recommended 6.0 percent rate adjustment.
[2] Neither revenues nor expenditures are adopted for Recology.
[3] Includes $215,000 credit from SMaRT Station reconciliation for the prior fiscal year.

While Recology's revenues and expenditures are not considered as part of the City's budget as these are contractually passed through to Recology, a revenue increase is provided to Recology per the agreement for collection services between the City and

Recology. Generally, the agreement calls for a Consumer Price Index (CPI) adjustment, with a minimum return on investment of 6.0 percent and maximum of 12.0 percent. For Fiscal Year 2011-12, an increase of 3.46 percent is included per the agreement to return Recology to its minimum return of 6.0 percent. Costs consistent with the agreement are projected to increase within the CPI of 1.5 percent. However, refuse and recycling collection revenues are below projected and are causing an adjustment greater then the CPI to return Recology to its minimum return of 6.0 percent per the agreement. In discussions with Recology about cost containment, Recology recently revised their projections for Fiscal Year 2011-12, decreasing the adjustment from the original 3.84 percent requested to 3.46 percent.

As the hauling contract with Recology expires April 2013, staff recently provided the alternatives of renewing the contract or issuing a Request for Proposals for a new hauler at a Study Session with the City Council on April 5, 2011.

The Fiscal Year 2011-12 expenditure recommendations are listed below:

- Major Capital Improvements:

  — Shoreline Landfill Cap Maintenance and Repairs: $119,000

  — Landfill Gas/Leachate System Repairs and Improvements: $119,000

Based on the contractual increase for Recology, as well as increases in the cost of City programs, the annual maintenance projects and the increased operating costs for the SMaRT Station, a 6.0 percent rate increase is recommended for Fiscal Year 2011-12. With a 6.0 percent general rate increase, the rate for a 32-gallon can will increase by $1.15 a month to $20.10 per month. See Attachment B for a comparison of the current rates and the recommended rates and Attachment C for recommended fee modifications.

Staff is recommending trash rates be included as part of the water and wastewater rate study to be conducted in the upcoming fiscal year. The revenues generated for refuse and recycling services are based on trash service and as diversion opportunities increase, consumers will continue to reduce service levels for trash, resulting in lower total revenues. However, the cost to pick up and haul both recycling and trash remains and increases with inflation. In addition, rates are charged based on volume while disposal costs are based on weight. A rate study is recommended to restructure and realign rates to reflect the cost of collection and the basis of disposal. Funding is available in the Zero Waste Capital Project for this rate study.

Revenues for Fiscal Year 2011-12 are projected to total $22.0 million (City revenues of $10.6 million) with total expenditures of $21.8 million (City expenditures of $10.4 million). There is also funding for capital projects of $246,000. The fund is projected to end the 2011-12 fiscal year with a reserve at the policy level of $2.6 million and a $1.2 million ending balance.

RESERVES

The City has established reserves for various purposes in the General Fund, Utility Funds and Internal Services Funds. A major factor considered by Standard & Poor's in awarding the City its AAA underlying credit rating was the structure and funding status of reserves. Most reserves are established pursuant to City Council Policy A-11, Section 4, Reserve Policies, and others have been approved by City Council. A discussion regarding the reserve structure, balances available for allocation, estimated fiscal year-end reserve balances compared to policy or target balances and the recommended allocation of available balances are described below. In Fiscal Year 2006-07, the Council adopted recommendations to restructure and consolidate various reserves. Council consolidated the Operating Contingency, Long-Term Contingency and Revenue Stabilization Reserves into the General Fund Reserve.

Utility reserves are recorded in the Water, Wastewater and Solid Waste Management Funds for emergencies, contingencies / rate stabilization and capital improvements.

Reserves Structure

Reserves can be classified as those uncommitted but designated for a specific purpose and those created to fund liabilities.

- Reserves uncommitted but designated for specific purposes:
  - General Fund Reserve
  - General Fund Budget Contingency Reserve
  - Capital Improvements
  - Open Space Acquisition
  - Strategic Property Acquisition

- Reserves to fund liabilities:
  - Property Management
  - Graham Site Maintenance
  - Child-Care Center Financing
  - Compensated Absences
  - PERS Liability
  - Equipment Replacement
  - Workers' Compensation Self-Insurance
  - Unemployment Self-Insurance
  - Liability Self-Insurance
  - Retirees' Health Insurance Program

Reserves in the first group are uncommitted but designated for a specific purpose and are funded entirely by the General Fund. Those in the second group, with the exception of the Property Management, Graham Site Maintenance and Child-Care Center Financing Reserves, receive transfers from multiple operating funds and have current or future liabilities offsetting all or most of the reserve balance. For the Child-Care Center Financing, the Equipment Replacement Reserve and Retirees' Health Program, the liability currently exceeds the reserve balance. Funds for the Child-Care Center are accruing interest to reach the amount needed for the future liability. For the Equipment Replacement Reserve, staff continues to monitor and review replacements and staff is currently working on review of the City's vehicle fleet. For the Retirees' Health Program, the City continues to accumulate funds toward this ever-growing liability.

Reserves are essential elements in maintaining financial stability, meeting long-term objectives and providing the ability to respond to emergencies. They are also important sources of interest income that is used for operating needs or offsets other funding requirements.

General Operating Fund Balance and One-Time Revenues and Expenditure Savings

The City's General Operating Fund ended the 2009-10 fiscal year with an operating balance of $280,000. There was also $1.5 million in one-time revenues and expenditure savings and $31,000 of previous unallocated carryover, for a total available balance of $1.8 million. This was insufficient to fund $3.4 million of reserve supplements and limited-period expenditures included in the Fiscal Year 2010-11 Adopted Budget; therefore, $2.0 million was transferred from the Budget Contingency Reserve. At the close of Fiscal Year 2009-10, the remaining balance available for allocation is $322,000.

The table below details the available balance for allocation (amounts in thousands):

Fiscal Year 2009-10 General Fund Operating Balance	$ 280
Net One-Time Revenues and Expenditure Savings	1,454[1]
Total Fiscal Year 2009-10 General Fund Carryover	1,734
Remaining Prior Year Balance	31
Total Balance Available for Fiscal Year 2010-11	1,765
Transfer from Budget Contingency Reserve	2,000
Less Fiscal Year 2010-11 Adopted Budget Allocations	(3,443)
Total Remaining Available for Allocation	322
Estimated Fiscal Year 2010-11 Operating Balance	1,376
Estimated One-Time Revenue	6
Total Estimated Balance Available for Allocation	$1,704

[1] Includes net changes in Assets and Liabilities.

This total is still a projection since it includes an estimate for the General Fund operating balance at the close of the current fiscal year and is not currently available. Recommendations regarding these funds follows (amounts in thousands):

Total Estimated Available for Allocation	$1,704[1]
Recommended Annual Allocations:	
General Fund Reserve	(1,070)[2]
Limited-Period Expenditures (Fiscal Year 2011-12 Budget)	(634)
Total Annual Recommended Allocations	(1,704)
Estimated Remaining Balance Available	$ -0-

(1) Includes $1.4 million estimated Fiscal Year 2010-11 operating balance.
(2) Estimate—Final amount to be determined based on the adopted budget.

Included in staff's recommendation is $1.7 million to fund annual allocations to replenish reserves and funding of next fiscal year's new limited-period expenditures. The current fiscal year estimated funding available for allocation is severely limited compared to previous years and is estimated to fund recommended annual allocations for Fiscal Year 2011-12.

The General Operating Fund includes an estimated budget savings amount that contributes to fully fund the Equipment Replacement funding and the amortization of the Retirees' Health UAAL. The risk to this method is that budget savings fluctuate from fiscal year to fiscal year; in the past, it has ranged from $1.6 million to $4.7 million. There is also a risk to this method during a period of contraction whereby budget savings may be reduced due to the reduction of positions and other expenditures. In addition, this will result in a lower operating balance for future fiscal years to fund and supplement reserves, including the CIP Reserve. If the budget savings are not fully realized, any shortfall will need to be funded from the Budget Contingency Reserve.

There is still funding needs in Retirees' Health Insurance (approximately $25.6 million) and if there were additional funds available, staff would recommend contributions to this and, perhaps, other unmet funding needs.

Background and Analysis

The table below details the estimated balance, recommended allocations, recommended balance and policy/target balance for each reserve (amounts in thousands):

	6/30/11 Estimated Balance	Amount Recommended for Allocation	7/1/11 Recommended Balance	Policy/ Target Balance
Uncommitted but Designated for Specific Purpose:				
GF Reserve[1]	$22,645	1,070	23,715	23,715[1]
GF Budget Contingency	5,564	-0-	5,564	5,564
GF Capital Improvements	5,000	-0-	5,000[2]	5,000
GF Open Space Acquisition	1,822	-0-	1,822	1,822
GF Strategic Property Acquisition[3]	12,379	-0-	12,379	12,379
Subtotal	47,410	1,070	48,480	48,480
To Fund Liabilities:				
GF Property Management	1,600	-0-	1,600	1,600
Graham Site Maintenance	1,110	-0-	1,110	1,110
GF Child-Care Center Financing	1,520	-0-	1,520	1,561
Compensated Absences	9,420	-0-	9,420	8,572[4]
GF PERS Liability	605	-0-	605	605
Equipment Replacement[5]	15,025	-0-	15,025	16,158
Workers' Compensation[5]	4,555	-0-	4,555	4,443[6]
Unemployment	110	-0-	110	110
Liability Self-Insurance[5]	3,640	-0-	3,640	3,639[6]
Subtotal	37,585	-0-	37,585	37,798
Total	$84,995	1,070	86,065	86,278
Retirees' Health Trust[4]	57,190[7]	-0-	57,190[7]	82,749[6]

[1] Policy balance is calculated as 25.0 percent of the General Operating Fund budget to be determined with the proposed budget.
[2] Includes estimated CIP refunds to raise it to the $5.0 million policy.
[3] Funds of $1.6 million have been authorized and may be used for the purchase of property at 449 Franklin Street.
[4] Based on the liability established as of June 30, 2010.
[5] Funding provided by the General Fund, Building Services, Shoreline Golf Links, Revitalization Authority, Parking District, CDBG, Shoreline Regional Park Community, Enterprise Funds and Fleet Maintenance as applicable.
[6] Actuarial liability, in addition to reserve for catastrophic claims per policy as applicable.
[7] Amount held in the California Employers Retirement Benefit Trust (CERBT) managed by CalPERS.

General Fund Reserve

With the Fiscal Year 2006-07 Adopted Budget, the Council approved the consolidation of the Operating Contingency, Long-Term Contingency and Revenue Stabilization Reserves into one General Fund Reserve with a policy balance of 25.0 percent of the General Operating Fund adopted expenditures. This reserve is the source of funding for necessary, but unanticipated, expenditures during the fiscal year, unanticipated revenue shortfalls, source for interfund loans, emergencies and to generate ongoing interest earnings. The allocation necessary for this reserve to meet policy is dependent on the actions taken to adopt a balanced budget, as any expenditure reduction will reduce the 25.0 percent policy amount. Based on total expenditures prior to any reductions, $1.1 million would be needed to supplement this reserve. Staff will calculate any reserve supplement, if necessary, with the proposed budget. Any use of this reserve for the remainder of the fiscal year will increase the amount needed to supplement this reserve.

In Fiscal Year 2009-10, up to $1.0 million in the General Fund Reserve was earmarked for the first-time homebuyers program. These loans would be considered as an investment alternative and would be included as funds toward the 25.0 percent policy balance. No loans have been issued to date.

General Fund Budget Contingency Reserve

This reserve was created during the downturn in the economy in the early 2000s to position the City to adjust to anticipated lower revenues and provided financial flexibility in case revenue estimates were not met or State actions forced further budget reductions. In Fiscal Year 2006-07, the Council consolidated and eliminated what was believed at the time to be an unnecessary reserve as the economy and City revenues had improved. Unfortunately, in Fiscal Year 2008-09, the economy plunged into the deepest recession since the Great Depression and there was again the need to reestablish this reserve. Therefore, the Budget Contingency Reserve (formerly the Budget Transition Reserve) was reestablished by transferring $5.0 million from the $12.2 million balance over reserve policy in the CIP Reserve. In Fiscal Year 2009-10, another $3.0 million was transferred from the CIP Reserve. For Fiscal Year 2009-10, this reserve was budgeted to transfer $1.6 million to the General Operating Fund to balance the budget and $540,000 to the General Nonoperating Fund for supplementing reserves and limited-period expenditures. However, due to the significant underspending of expenditures, neither of these transfers were necessary.

For Fiscal Year 2010-11, Council approved $188,000 for transition of unfunding 2.5 filled positions and $138,400 for the transition of certain recommended fee increases that were phased in over two fiscal years. In addition, $2.0 million was transferred for the

Compensated Absences Reserve for funding needs in excess of the estimated funding available from the fiscal year ending June 30, 2010 carryover.

For Fiscal Year 2011-12, should the General Operating Fund be balanced by eliminating filled positions, funding will be necessary from this fund to transition employees to avoid layoffs. In addition, it is recommended that $500,000 be used to transition the golf links to a new operating model and $538,000 be earmarked for use in the event the State eliminates redevelopment agencies. The General Operating Fund budget includes an estimated budget savings amount, but if this savings amount is not achieved, any shortfall will also be funded from this reserve.

General Fund Capital Improvements Reserve

The City has a long-term policy to reserve a minimum of $5.0 million for unspecified capital improvement projects in the General Fund Capital Improvement Reserve. This provides flexibility in the City's planning for capital projects, serves as a contingency fund for capital projects, generates ongoing investment earnings and also serves as an emergency pool of funds for unanticipated high-priority capital needs. With the Fiscal Year 2007-08 budget, the unallocated General Fund operating balance of $12.2 million was added to this reserve for future major capital projects and due to the deteriorating economic climate, $5.0 million and $3.0 million was redirected to reestablish the Budget Contingency Reserve for Fiscal Years 2008-09 and 2009-10, respectively.

In June 2009, the Council appropriated $3.5 million from the CIP Reserve for the acquisition of the property at 263 Escuela Avenue to be funded from the $5.0 million reserve policy balance. However, at that time, there was a balance of approximately $3.0 million for future CIPs Reserve above the $5.0 million policy balance requiring only a small portion ($42,000) to be used from the policy balance. It is currently estimated there will be sufficient CIP refunds in Fiscal Year 2010-11 to bring the balance back up to the $5.0 million policy level.

The $3.5 million is to be repaid from the land lease prepayment for the Downtown Family Development Project and is anticipated to be paid by the end of this fiscal year. Once building permits are issued and construction begins, these funds will be available to be allocated as rent is earned. Until then, this payment is considered unearned revenue and is not available.

General Fund Open Space Acquisition Reserve

This reserve was established for the purpose of acquiring open space to meet the needs of the City and had been inactive since Fiscal Year 2000-01. In Fiscal Year 2007-08, $3.0 million from available balances was allocated to this reserve. For Fiscal Year 2009-10, $1.2 million was transferred to capital projects. These funds are available supplemental funding to Park Land Dedication fees.

General Fund Strategic Property Acquisition Reserve

This reserve was created in Fiscal Year 2000-01 for the purpose of setting aside specific funds for the City to use for the acquisition of strategic property(ies) in order to take advantage of economic development opportunities. The proceeds from the sales of City-owned property have been placed in this reserve as one source for its funding. The fund has accumulated the funds necessary for the purchase of the Moffett Gateway Properties from the County and State as authorized by Council. The property purchase from the County was completed in Fiscal Year 2009-10 and staff will continue to pursue the property owned by the State. If the City can acquire and consolidate these properties, it could be used for development that would generate a significant long-term revenue stream for the General Operating Fund.

On April 26, 2011, Council authorized the potential use of $1.6 million of these funds to acquire the property located at 449 Franklin Street. The funds will be replenished from the sale of the remaining portion of the property.

General Fund Property Management Reserve

This reserve was established in Fiscal Year 1995-96 to provide a source of funds for landlord obligations that could arise from the lease of City property in the North Bayshore Area. These obligations could include environmental testing, certain responsibilities identified in land leases or other costs normally incurred by a lessor.

Graham Site Maintenance Reserve

This reserve was established in Fiscal Year 2004-05 to fund maintenance obligations for the Graham Sports Complex. In the agreement with the school district to construct the reservoir beneath the playing fields at Graham Middle School, the Water Fund contributes $220,000 per year to this reserve. The City agrees to maintain this site and the General Operating Fund is reimbursed from this reserve for the maintenance costs of the Graham Sports Complex.

General Fund Child-Care Center Financing Reserve

With the adoption of the Fiscal Year 2005-06 budget, the Council set aside $1.2 million as part of the financing plan for the Child-Care Center. The $1.2 million funded a portion of the initial $200,000 payment (prior to the operator assuming operations) to the Packard Foundation and will fund the balloon payment due at the end of Year 8. The balance is estimated to generate sufficient interest earnings to fund the final payment to the Packard Foundation due January 2016. The Child-Care Center opened in September 2008, and the first debt payment was made in January 2009.

Compensated Absences Reserve

The Compensated Absences Reserve was established in Fiscal Year 1991-92 to fund the City's liability for the accrued vacation, comp time and sick leave obligations of employees in all funds except the Enterprise and Internal Service Funds. The liabilities of the Enterprise and Internal Service Funds are recorded in those respective funds as required by governmental accounting standards. This reserve is drawn down for leave payoffs to terminating and retiring employees (for accumulated vacation and sick leave, if applicable under the City's Personnel Rules) and current employee vacation cash-out payments during the fiscal year. The leave liability is recalculated, in accordance with generally accepted accounting principles, each fiscal year with the close of the City's financial records.

During Fiscal Year 2009-10, approximately $1.2 million was paid out of this reserve and $946,000 has been paid out as of March 31, 2011. The current estimated reserve balance of $9.4 million is higher than the calculated liability of $8.6 million as of June 30, 2010. Staff is recommending to leave the balance available above the liability as the liability will be recalculated at the close of the current fiscal year, and for payouts that will occur during the upcoming fiscal year that will need to be funded.

General Fund Public Employees Retirement System (PERS) Liability Reserve

The PERS Liability Reserve was created with the Fiscal Year 2004-05 Adopted Budget to mitigate the City's anticipated rising retirement costs related to prior year PERS investment portfolio losses. In the boom years leading up to the last recession, the City benefited from PERS investments achieving significantly higher investment returns than the return assumed in actuarial calculations. Excess investment returns resulted in the City being overfunded from an actuarial standpoint and retirement rates were temporarily reduced.

When PERS investment surpluses began to lower retirement rates, the City established a policy of budgeting normal cost in an attempt to avoid significant swings in the budget due to temporary changes in PERS rates. During the fiscal years between

1999-2000 and 2002-03, the actual amounts paid to PERS were less than the City's normal costs. The difference between the normal cost and the actual costs were considered one-time savings.

The amount that had accumulated from these PERS savings was set aside in the General Fund PERS Liability Reserve and has been used to fund the annual liability payment to PERS that now exceeds normal costs. The PERS savings of $1.9 million pertaining to the safety group was used when the enhanced retirement benefit of 3.0 @ 50 was granted. In Fiscal Year 2007-08, the City granted an enhanced benefit 2.7 @ 55 for the miscellaneous employees. A one-time payment of $4.0 million from the PERS Liability Reserve was used to reduce the City's unfunded liability associated with the enhanced retirement benefit for miscellaneous employees. Provisions in the agreements for safety and miscellaneous employees provide for employees to share a portion of the City's increased costs for the enhanced retirement benefits. The miscellaneous employees also agreed to new options offered to new employees for retirees' health benefits.

The remaining balance in the PERS Liability Reserve has been used to fund a portion of the City's PERS costs in order to manage higher PERS rates by phasing them into the General Operating Fund over several fiscal years. In the Fiscal Year 2005-06 Adopted Budget, Council approved a strategy of phasing out the use of the reserve by $100,000 per fiscal year until the General Operating Fund has absorbed the full PERS costs for Miscellaneous employees. Fiscal Year 2010-11 was estimated to be the final year of funding from the reserve. However, in Fiscal Year 2009-10, an additional $483,000 was added to this reserve. This amount represents the Miscellaneous Group's cost share implemented prior to the effective date of the enhanced 2.7 @ 55 retirement benefit. In addition, interest earnings have accrued, and the current estimated balance is $605,000. The use of approximately $200,000 per fiscal year will continue through Fiscal Year 2013-14, which is projected to be the final year of funding from this reserve. Once all funds have been utilized, the PERS Liability Reserve will be dissolved.

Equipment Replacement Reserve

The City established the Equipment Replacement Reserve in Fiscal Year 1991-92 to stabilize the annual funding needed for the replacement of certain City equipment. Level annual contributions are received from various funds and the reserve absorbs the large fluctuations in annual expenditures for equipment replacement from fiscal year to fiscal year. Only major categories of fixed assets are included in the Equipment Replacement Fund. The assets included are all vehicles, Information Technology equipment (i.e., computers, printers, servers, etc.), Fire fleet, Police and Fire radios, CAD/RMS system hardware and Communications Center furniture and equipment. The equipment for the maintenance of Shoreline Golf Links is also separately accounted for in the Equipment Replacement Fund. The annual contribution level is based on the

cost or estimated replacement cost of the asset divided by the estimated useful life of the asset.

For Fiscal Year 2010-11, the General Operating Fund's contribution was reduced to $1.0 million, $200,000 lower than the $1.2 million in the prior three fiscal years. However, the additional $945,000, normally funded from carryover balances, to fully fund the $2.1 million General Operating Fund's annual share, was included in the General Operating Fund based on funding from estimated budget savings. This allowed for the full General Operating Fund's share, less the $200,000, of Equipment Replacement contribution to be included in the operating budget. The $200,000 reduction was proposed in conjunction with a review of the City's vehicle fleet. A study of the City's fleet is in process to determine if sufficient reductions/adjustments can be made to satisfy the $200,000 reduction in funding. The estimated balance of $15.0 million is $1.1 million below the target balance of $16.1 million. Equipment replacements scheduled for Fiscal Year 2011-12 total $1.2 million, plus there is $2.3 million being rebudgeted (from the $3.9 million budgeted in the current fiscal year) for a total of $3.5 million. Staff will be reviewing all items before purchasing and will only replace those items necessary due to expected failure or that will provide improved efficiencies.

Workers' Compensation Self-Insurance Reserve

The Workers' Compensation Fund was established by Council resolution on September 7, 1975 to account for the City's self-insured obligations for Workers' Compensation liabilities to injured City employees. This program continues to be cost-effective in comparison to purchasing insurance.

The City last reviewed the cost effectiveness of the Self-Insurance Program in April 2007 and another review will be done in the near future. Based on the City's loss experience, payroll, Workers' Compensation Insurance Rating Bureau (WCIRB) pure premium rate estimates, employee class codes and insurance company charges for Workers' Compensation services, it was estimated the cost of the Self-Insurance Program to be $1.6 million (paid costs, reserves were not factored in as future potential cost exposure) and an insured program would have cost $2.4 million.

The primary reasons to be self-insured is to control costs and pay claims as they are incurred to maximize cash flow and provide timely and better services. When insured, one pays all the premium fees up front and then the insurance carrier manages the claim in hopes of incurring less costs. By self-insuring, the City can better manage the claim and provide better services to our employees.

Expenditures paid out of this fund includes the cost for the City's Third-Party Administrator (TPA), the insurance above our self-insurance retention, claims and

indemnity payments and the State self-insurance fee. The Council approved a contract for a new TPA, effective July 1, 2011, following a successful Request for Proposal and negotiation process, saving the City over $20,000 annually for three years.

In addition, the City budgets $200,000 a year to fund Public Safety employees' salaries while on Workers' Compensation. This is utilized when Police or Fire requires to backfill with overtime or other personnel for the employee out on Workers' Compensation and cannot absorb the cost of the employee's salary in the department's budget.

The required balance of this reserve is based on projected liabilities as determined by an actuarial valuation conducted every year. In addition, the reserve policy includes funding in the amount of $1.0 million for the potential of two catastrophic claims at the City's current level of self-insured retention of $500,000 per claim (i.e., deductible). The accrued liability is reviewed on an annual basis with the audit of the City's financial statements. The reserve has an estimated balance of $4.6 million, slightly higher than the $4.4 million policy level as of June 30, 2010.

Unemployment Self-Insurance Reserve

The Unemployment Self-Insurance Reserve was approved by Council on March 13, 1978. This program provides for the State-mandated unemployment insurance benefits for former employees. The City pays for unemployment claims on a pay-as-you-go basis. In prior years, contributions for the estimated payments were made annually. As a balance accumulated in this fund, the annual contributions were recommended to cease as a General Operating Fund reduction measure. Although annual expenditures will fluctuate in this fund, the latest economic recession has produced higher unemployment and longer eligibility periods resulting in higher unemployment cost. With current fiscal year estimated costs of $160,000, the estimated balance as of June 30, 2010 will be $110,000 and is not sufficient to fund another fiscal year's unemployment costs. For Fiscal Year 2011-12, it is recommended contributions from various funds be contributed to this fund to pay for unemployment costs.

Liability Self-Insurance Reserve

The Liability Self-Insurance Reserve was approved by Council on August 11, 1980. The City currently self-insures for the first $1.0 million of liability exposure per occurrence. The City is a member of the Authority of California Cities Excess Liability (ACCEL) Program for the pooling of liability insurance above the $1.0 million self-insured retention. ACCEL began in 1992 as a pool for medium-sized cities. Other members of the pool are Anaheim, Bakersfield, Burbank, Modesto, Monterey, Ontario, Palo Alto, Santa Barbara, Santa Cruz, Santa Monica and Visalia. ACCEL pools liability coverage

for the next $4.0 million of coverage and the City purchases additional coverage of $45.0 million through ACCEL for total liability coverage of $50.0 million.

Other expenditures funded from the Liability fund are for outside legal counsel for defense against claims, insurance (e.g., property, automobile, flood, etc.) and payment for claims.

Council Policy A-11 specifies the policy level of this reserve to be $2.0 million for the self-insured exposure for two catastrophic incidents and an amount to fund estimated incurred claims. The estimated incurred claims are determined by an actuarial valuation performed every year and are reviewed on an annual basis with the audit of the City's financial statements. The actuarial valuation, last updated as of June 30, 2010 indicates a liability amount of $1.6 million, resulting in the policy level for this reserve of $3.6 million. The current estimated balance is $3.6 million, at policy level.

Retirees' Health Insurance Program Reserve

The City provides postemployment health care benefits by contributing all or a percentage of the premium cost for its retired employees. The cost for current employees who will be eligible for this benefit in the future, as well as those already retired, represents an outstanding liability to the City. The current fiscal year adopted expenditure for all funds to pay the annual cost of this benefit on a "pay-as-you-go" basis is approximately $1.8 million.

The Governmental Accounting Standards Board (GASB) Statement No. 45 became effective for the City for Fiscal Year 2007-08 and requires the Actuarial Accrued Liability (AAL) to be updated every two years. GASB Statement No. 45 also requires the calculation of the City's Annual Required Contribution (ARC). The ARC consists of two components—the normal costs which represents the annual cost estimate for this benefit in the future for current employees and the amortization of the Unfunded Actuarial Accrued Liability (UAAL). The UAAL represents the unfunded portion of the liability for retirees currently receiving the benefit and the future benefit associated with past service for current employees. The UAAL is amortized over a period of 30 years.

The total City actuarial accrued liability as of July 1, 2010 for Fiscal Year 2010-11 is $78.8 million and includes an estimated liability of $82.7 million for the second year or as of July 1, 2011. This is based on a 7.75 percent discount rate (the rate assumed by the CalPERS Trust). This valuation also included asset smoothing to begin accounting for interest earned above and below the 7.75 percent discount rate. The City will have accumulated an estimated $57.2 million as of June 30, 2011. Staff phased all accumulated funds into the Trust over a period of approximately 1-1/2 years and, beginning July 2011, the ARC will be deposited into the trust. If the funds were not placed in an irrevocable

trust, the City would not be able to take credit for the funds set aside toward the reduction of its ARC.

All but a few funds (General Operating and Golf Links Funds) have funded their share of the UAAL based on the July 1, 2010 valuation. Each time the valuation is updated, the AAL is recalculated and residual amounts may need to be funded. Due to the significant interest earned in the trust over the past two fiscal years, all funds that fully funded the UAAL will not need to make an additional payment in Fiscal Year 2011-12 with the exception of small amounts in the Shoreline Community and Below-Market Housing Funds. The General Operating Fund's share of the UAAL is estimated at $24.7 million and contributions toward this liability are made when funds are available.

The City has made great strides toward funding the AAL of $78.8 million (as of July 1, 2010). In addition, labor contracts for some employee organizations have included provisions to assist in controlling the growth of this liability into the future by implementing a defined contribution plan option and all groups have limits on the City's contributions. However, this obligation continues to grow faster than the City's ability to fund and represents a significant long-term risk to the City's financial well-being.

For the upcoming fiscal year, the General Operating Fund's annual funding for the normal cost portion of the General Fund's ARC will be $1.7 million and the amortization UAAL portion of the ARC is $1.9 million, for a total $3.6 million, to be included in the General Operating Fund.

Reserve Recommendations

Staff has performed a preliminary review of reserve levels and included funding recommendations for specific reserve requirements. Additional supplemental funding for the General Fund Reserve may be required, depending on the recommendations for balancing the budget for Fiscal Year 2011-12. If no expenditure reductions are taken, this could result in additional funding of up to $1.1 million. Staff will recalculate the reserve supplement needed with the proposed budget. The additional estimated budget savings are included in the General Operating Fund. The underspending of the budget occurs every fiscal year but varies from fiscal year to fiscal year. If the budget savings are less than estimated, any shortfall will then need to be funded from reserves. These recommendations will allow most reserves to meet policy levels and provide funding for or supplement next fiscal year's obligations.

CONCLUSION

As previously mentioned, this report constitutes the budget update of the Building Services, Shoreline Golf Links, Revitalization Authority, Shoreline Regional Park

Community, Water, Wastewater, Solid Waste Management and Reserve Funds. The report also provides a nine-month update on the City's performance measures.

The Building Services Fund's revenues are estimated to be $404,000 greater than the adopted budget as building activity is higher than projected but appears comparable to the prior fiscal year. The Fund is estimated to end Fiscal Year 2010-11 with a balance of $5.8 million.

The Shoreline Golf Links Fund continues to have financial difficulties in generating sufficient revenues to meet operating expenditures. The RFP for a management agreement has been issued and staff is working on an alternative City operating model, both to be discussed with Council later this summer. The Fund is estimated to essentially deplete all resources by the end of the current fiscal year.

The Revitalization Authority is receiving reduced tax increment revenues; however, has sufficient financial capacity to fund debt service and the 20.0 percent Housing Set-Aside requirement. The Council authorized an extension of the Authority and it is now set to expire in April 2013.

The Shoreline Regional Park Community's property taxes are down for Fiscal Year 2010-11 and unsecured and supplemental property taxes are projected to decline for Fiscal Year 2011-12. Staff will be returning to Council in May for approval of a bond issue to fund major capital improvement projects in the Shoreline Community.

The Water Fund revenues are $826,000 below budget and expenditures are $1.4 million below budget. The SFPUC is proposing a rate increase of 47.4 percent in wholesale water costs and SCVWD is currently proposing a 7.9 percent and 9.4 percent rate increase for treated water and well water, respectively. As a result, a 23.0 percent rate adjustment is recommended to water rates for Fiscal Year 2011-12. A rate study is recommended to be conducted for all utility rates during Fiscal Year 2011-12 to review the fixed costs associated with maintaining the water system and possible realignment of the tier rate structure.

The Wastewater Fund's revenues are $251,000 below the adopted budget and expenditures are $2.8 million less than budget primarily due to a $2.2 million credit from the PARWQCP for Fiscal Year 2009-10. A 5.0 percent rate decrease is recommended for Fiscal Year 2011-12. Staff is recommending wastewater rates be included with the water rate study.

The Solid Waste Management Fund's revenues (City) are $188,000 below budget and expenditures (City) are $615,000 below budget in part due to a $215,000 credit from the SMaRT Station for Fiscal Year 2009-10. A contractual increase for Recology, increased costs for the SMaRT Station, lower service demand for trash services and operating cost

adjustments result in a recommended 6.0 percent rate increase for Fiscal Year 2011-12. Staff has engaged Council on the possibility of issuing an RFP for a new waste hauler. Staff is recommending a rate study to review the restructuring of rates to reflect the full services provided as well as the basis of charges.

The water and wastewater rate adjustments are within the guidelines adopted in the Fiscal Year 2009-10 Proposition 218 notice and, therefore, a public hearing is not required. A Proposition 218 notice is required for the recommended solid waste rate increase. A notification of the Proposition 218 hearing and proposed rate adjustments will be mailed on April 29, 2011.

The total average increase for a single-family residential customer as recommended for all three utilities is 10.1 percent, resulting in an estimated increase of $7.85 monthly. A comparison of the current and the recommended rates are included in Attachment B.

Most reserves are at or exceed their target or policy balance. A supplement for the General Fund reserve is estimated at $1.1 million based on status quo expenditures and will be recalculated based on the expenditures in the Fiscal Year 2011-12 proposed budget.

Staff looks forward to reviewing these recommendations with Council and providing any follow-up information as requested.

Melissa Stevenson Dile

Melissa Stevenson Dile
Interim City Manager

MSD/BUD
614-2011-12SUF^

Attachments: A. Nine-Month Actual Performance Measures
B. Utility Rate Recommendations
C. Recommended Fee Modifications

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Attachment A

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ATTACHMENT A

CITY CLERK'S OFFICE
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
Elections	Percent of official election notices published without errors and on time	100%	100%	100%	100%
	Percent of Statement of Economic Interests processed correctly and submitted on time	100%	100%	100%	100%
Legislative	Percent of agenda packets prepared and distributed five days before Council meeting	100%	100%	100%	100%
	Percent of agendas and minutes posted at least 72 hours prior to a regular Council meeting	100%	100%	100%	100%
	Percent of minutes prepared for City Council meeting without errors of fact	>98%	85% (A)	88% (A)	91% (A)
	Percent of resolutions and ordinances processed within five days after a Council meeting is held	>90%	100%	100%	100%
	Percent of Council agenda staff reports processed within five days after a Council meeting is held	>90%	100%	100%	100%
	Percent of legal hearing notices prepared, noticed and mailed within legal deadlines	100%	100%	100%	100%
Records Management	Percent of agenda items uploaded to imaging system each agenda production week	100%	100%	100%	100%
	Number of agreements documented and indexed	750	267	430	570
Administrative/ Support to Council	Percent of Council service requests responded to within one working day of receipt	100%	100%	100%	100%

(A) Two of 13 sets of minutes had corrections through the first quarter. Three of 24 sets of minutes had corrections through the second quarter. Five of 52 sets of minutes had corrections through the third quarter.

CITY ATTORNEY'S OFFICE
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
City Attorney's Office	Total cost of legal services, in-house and outside counsel, as a percent of General Operating Fund budget	<2%	0.2%	0.5%	0.8%
	Percent of claims entered into the claim reporting system, reported to ACCEL and directed to appropriate departments for response within 5 working days of receipt of the claim	>90%	100%	100%	100%
	Percent of routine contracts reviewed within 10 working days	>85%	99%	99%	99%
	Percent of complex contracts reviewed within 20 working days	>80%	100%	100%	100%
	Percent of code enforcement cases responded to within 5 working days of receipt of complaint or observation of violation	>95%	97%	94% (A)	96%

(A) One Code Enforcement Officer was out on FMLA.

CITY MANAGER'S OFFICE
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
City Management	Percentage of City Manager's Office cost as a percent of the General Operating Fund budget	<2%	1.4%	1.4% (A)	1.4% (A)
	Percent of multi-lingual Community Outreach Program information requests that are responded to within three business days	>90%	90%	90%	90%
	Number of communications regarding the City's position on legislation or legislative issues made annually to the State Legislature, Congress and other branches of government	5	1	2	4
	Number of Community Information and Outreach Program products provided (newsletters, press releases, Internet postings, media contacts, etc.)	40	14	35	64
	City Manager's Office staff attendance at community-based events/meetings for community support, liaison or networking purposes (not specific to job duties)	25	7	17	23
	Percent of time comments submitted within public comment period on environmental reports, regulations, legislation or report reviewed by City Manager's Office (necessity of commenting determined on a case-by-case basis)	100%	100%	100%	100%

CITY MANAGER'S OFFICE
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
Human Resources	Employee turnover rate	<10%	3%	4%	5%
	Percent of recruitments/vacant positions filled by existing personnel (excludes promoting within positions classified as I/II)	>30%	31% (B)	33% (B)	38% (B)
	Percent of recruitments successfully completed within the negotiated time line set by the hiring department	>90%	100%	100%	100%
	Percent of new employee orientations conducted within 7 days of hire	>98%	100%	100%	100%
	Percent of retirement planning informational meetings conducted with retiring employees	>90%	100%	100%	100%
	Percent of employee separation reports processed through to the appropriate agency within the 10-day reporting time line following State guidelines	>95%	99%	92% (C)	93% (C)
	Percent of employee requests for FMLA leave responded to within 5 business days (pursuant to Federal guidelines)	>95%	63% (D)	65% (D)	66% (D)
	Percent of employee benefit inquiries responded to within 2 working days	>85%	100%	100%	100%

(A) Percentage is for the City Management Division.

(B) Four out of 13 recruitments/vacancies filled by internal personnel in the first quarter. Six out of 18 recuitments/vacancies filled by internal personnel through the second quarter. 10 out of 26 recruitments/vacancies filled by internal personnel through the third quarter.

(C) Includes two disability retirements that were processed retroactively in the second quarter.

(D) Due to workload and other project priorities, three out of eight requests were responded to after five days through the first quarter. Six out of 17 requests were responded to after five days through the second quarter. 10 out of 29 requests were responded to after five days through the third quarter.

FINANCE AND ADMINISTRATIVE SERVICES DEPARTMENT
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
Financial Management	Accuracy of final budget numbers - percent of budget corrections needed due to error	<2%	0.2%	0.4%	0.4%
	Percent of time portfolio's market risk target (modified duration) is within:				
	• 3.0 percent of the benchmark (policy requires 25 percent of time within 3.0 percent)	>50%	100%	100%	78%
	• 15.0 percent of the benchmark (policy requires 100 percent of time within 15.0 percent)	100%	100%	100%	100%
	Cost per payroll check issued (cost of payroll operation to total paychecks issued)	<$18.00	$14.86	$16.29	$15.80
	Percent of reissued payroll checks versus total issued	<2%	0.1%	0.1%	0.1%
	Payroll checks issued	21,500	5,330	11,093	15,918
	Percent of utility bills processed and mailed 10 working days from last meter reading date	>95%	100%	100%	100%
	Percent of utility accounts and accounts receivable accounts written off as a percent of total receivables	<3%	0.2%	1.3%	0.7%
Accounting	Percent of correcting accounting entries to total accounting entries	<15%	8.1%	7.6%	7.9%
	Percent of month-end closes completed within 10 working days (target assumes June and July will not close within 10 working days due to year-end workload)	83%	67% (A)	83%	89%
	Cost of Accounts Payable processing as a percent of total dollars spent	<1%	0.2%	0.2%	0.2%

FINANCE AND ADMINISTRATIVE SERVICES DEPARTMENT
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
Purchasing and Support Services	Cost of procurement services as a percent of total dollars spent	<4%	2.7%	3%	3%
	Percent of time purchase orders issued timely	>85%	89%	96%	95%
	Percent of time Document Processing documents are completed timely	>90%	99%	99%	99%
	Percent of time Copy Center documents are completed timely	>90%	99%	98%	98%
Information Technology	Cost of information services as a percent of total City department expenditures	<3%	2.6%	2.2%	2.1%
	Percent of time network is up	>98%	>99%	>99%	>99%
Risk Management	Percent of Workers' Compensation program costs to total payroll	<5%	Reported annually	Reported annually	Reported annually
	Percent of hours lost to occupational injury compared to total hours worked	<2.5%	Reported annually	Reported annually	Reported annually
	Percent of dollars recovered compared to expenditures paid to repair damage due to third-party vehicle accidents	100%	Reported annually	Reported annually	Reported annually

(A) Lower percentage due to year-end closing workload during July.

COMMUNITY DEVELOPMENT DEPARTMENT
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
Planning	Percent of time that staff analysis and recommendation on General Plan or rezoning applications are completed within the established schedule	>80%	N/A (A)	100%	100%
Economic Development	Number of contacts with businesses interested in relocating or expanding in Mountain View	50	16	27	43
Neighborhood Preservation	Percent of Federally funded contracts carried out in compliance with City and Federal requirements	100%	100%	100%	100%
Building Inspection	Percent of time where City provides 24-hour building inspection response for those inspection requests received by 3 p.m. on weekdays	>95%	99%	99%	99%
	Percent of time that City meets five-day turnaround plan check for all Fast Track submittals that meet building inspection criteria	>90%	98%	98%	98%

(A) No General Plan or rezoning applications were approved during the first quarter. Some projects such as the San Antonio Center Precise Plan Amendments have had their schedules revised based on other factors such as developer changes to the project.

PUBLIC WORKS DEPARTMENT
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
Transportation and Property Services	Pounds of disposed waste per person per day	<7.8	4.0	4.0	4.0
Engineering	Percent of construction projects completed with less than 10.0% time increase over the original contract award	>85%	100%	100%	100%
	For Capital Improvement Projects, the percent of time that the low bid is within 25% of engineer's estimate	<25%	50% (A)	22%	23%
	Percent of time all tentative maps and private development applications are reviewed within the departmental standard review time	>90%	88% (B)	81% (B)	70% (B)
	Pavement condition index for asphalt (Metropolitan Transportation Commission rating scale of 0-100, 70-100 being very good)	>75	75	75	75
Business and Internal Support Services	Percent of Facilities Division work orders completed in 30 days or less	>85%	89%	87%	86%
	Percent of Fleet's Preventative maintenance work orders completed within 30 days of schedule	>80%	40% (C)	39% (C)	40% (C)
	Percent of time frontline fleet units are available (Public Services and Community Services field vehicles)	>90%	98%	98%	98%

PUBLIC WORKS DEPARTMENT
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
Public Services	Number of feet of sewer mains cleaned	>400,000	176,910	383,250 (D)	563,360 (D)
	Total number of sanitary sewer overflows	<12	0	0	0
	Total number of water main breaks	<6	4 (E)	7 (F)	10 (F)
	Total number of water quality reportable events	<110	2	6	7
	Total number of air and/or water quality reportable events at the closed landfills	<4	0	0	0

(A) In two out of four projects the low bid was more than 25% lower than the engineer's estimate, indicating a favorable bidding climate through the first quarter.

(B) 29 out of 33 projects reviewed within the standard review time through the first quarter. 65 out of 80 projects reviewed within standard review time throught the second quarter. 91 out of 130 projects reviewed within the standard review time through the third quarter.

(C) Performance is consistent with last five fiscal years. The measure is being revised for FY 2011-12.

(D) Three factors have contributed to this number trending significantly higher than the target: A focus away from storm drain cleaning and more on sewer main cleaning; minimal equipment breakdowns (chiefly the Vac-con units); and the Wastewater Operation has been more fully staffed than in prior fiscal years. The target will be increased for FY 2011-12.

(E) All four water main breaks in the first quarter were on a one-block stretch of pipe that was past its useful life. Three of these four breaks occurred within a five-day period as a result of scheduled flushing in the area.

(F) Water main breaks in the second and third quarters occurred on aging pipes. Two of the main breaks in the third quarter were on pipes slated for replacement in FY 2011-12.

COMMUNITY SERVICES DEPARTMENT
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
Shoreline Golf Links	Percent of paid golf rounds played versus course capacity (84,000 rounds)	>78%	21%	33%	45% (A)
Forestry	Average maintenance cost per landscaped median acre	<$8,500	$2,007	$4,129	$6,157
Parks	Average maintenance cost per park acre (not including Shoreline Park)	<$15,000	$4,223	$8,079	$10,880
Recreation	Percentage of class registrations completed on-line (net, not including golf, tennis, drop-in or lap swim)	>25%	27%	39%	36%
	Number of facility rental permits issued/individual bookings (uses) (includes group BBQ areas, Adobe, Community Center, Senior Center, gyms, athletic fields)	1,800/ 10,000	885/ 2,807 (B)	1,173/ 5,284	1,407/ 7,188
	City-wide volunteer time staffing equivalent	15 FTE	6.4 FTE (C)	11.7 FTE (C)	17.1 FTE (C)

(A) Rounds are trending lower due to the economy and rainy weather.
(B) Facility rental permits total is high due to seasonal usage and is consistant with the previous year.
(C) Increase in volunteer hours attributed to a higher unemployment rate.

LIBRARY SERVICES DEPARTMENT
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
Public Services	Number of visitors and Library customers	900,000	235,889	435,004	627,709
	Number of items circulated per capita	24	6	11	17
	Number of items circulated per registered borrower	18	5	9	13
	Reference questions answered per capita	1.5	0.3	0.7	1.1
	Number of children participating in children's programs	30,000	11,348 (A)	17,992	24,232
	Circulation per FTE (including hourly staff)	36,000	9,717	18,877	28,575
	Percent of circulation that is customer self-check	>95%	96%	96%	96%
	Percent of materials returned at automated returns	>90%	91%	90%	90%
	Turnover rate (total collection)	5.5	1.4	2.7	4.0
Support Services	Average number of calendar days between receipt of new item and availability to check out	<28	16	13	14
	New book and media titles cataloged	13,000	3,121	6,378	10,466
	New book and media items processed	24,000	6,784	13,208	20,733

(A) Attendance is trending higher due to increased attendance during summer months, as well as the addition of a drop-in storytime once per week.

FIRE DEPARTMENT
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
Suppression	Percent of time a first in fire engine arrives on a structure fire scene within 6 minutes of dispatch	100%	100%	100%	100%
	Percent of time the second due fire engine arrives on a structure fire scene within 8 minutes of dispatch	100%	100%	100%	100%
	Percent of emergency medical Code 3 calls where responding unit arrived within 6 minutes of dispatch	>90%	92%	95%	94%
Fire and Environmental Protection	Percent of plans checked within five working days of receipt by division	100%	100%	100%	100%
	Number of inspections conducted by Environmental Safety Section	1,500	469	857	1,258

POLICE DEPARTMENT
PERFORMANCE MEASURES/WORKLOAD MEASURES

Program	Performance Measure/ Workload Measure	2010-11 Target	2010-11 3-month Actual	2010-11 6-month Actual	2010-11 9-month Actual
Field Operations	Response Time (10-97) of 4 minutes or less on all Priority E and 1 calls for service	>55%	59%	59%	58%
	Sustain Part I crimes index below the mean average for cities listed in annual report	2,444 (FY 09-10 index)	439	993	1,422
	Sustain traffic-related injuries below the mean average as compared to the Office of Traffic Safety comparable cities	<350	63	107	154
Special Operations	Increase Part I crime clearance	>25%	23% (A)	36%	36%
	Percent of incoming 9-1-1 calls answered within 9 seconds of receipt	>95%	98%	98%	98%
	Percent of emergency medical dispatch calls where Emergency Medical Dispatch services were provided to the public	>85%	98%	96%	96% (B)
	Percent of Officers in compliance with POST training requirements	100%	98% (C)	98% (C)	88% (D)

(A) Clearance rate consists of the violent crime clearance rate and the property crime clearance rate. The violent crime clearance rate was 5% lower through the first quarter, reducing the overall rate.

(B) No additional data after the 6-month actual. EMD has become the industry standard and is provided on all EMS calls for service when possible. The initial goal of providing EMD on a modest percentage of EMS calls was only necessary through implementation stages. The measure will be revised for FY 2011-12.

(C) Percentage is lower due to two employees on Military Leave. POST does not suspend employees on leave so they continue to be accounted for in relation to training compliance.

(D) Eight officers and two sergeants did not complete the mandated training through the CPT cycles.

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Attachment B

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Effects of Recommended Utility Increases - FY 11-12

Single Family			10-11	11-12	Difference	% Change
*Water	(10 units)	$	34.41	42.32	7.91	23.0%
Sewer			24.20	22.99	-1.21	-5.0%
Trash	(1 can)		18.95	20.10	1.15	6.1%
Total monthly bill:		$	77.56	85.41	7.85	10.1%

Multi-Family (4-plex)			10-11	11-12	Difference	% Change
*Water	(40 units)	$	131.36	161.54	30.18	23.0%
Sewer			96.80	91.96	-4.84	-5.0%
Trash	(4 cans)		75.80	80.40	4.60	6.1%
Total monthly bill:		$	303.96	333.90	29.94	9.8%

Commercial			10-11	11-12	Difference	% Change
*Water	(60 units)	$	238.32	293.10	54.78	23.0%
Sewer			173.88	165.00	-8.88	-5.1%
	(3 Yd Bin)		291.05	308.55	17.50	6.0%
Total monthly bill:		$	703.25	766.65	63.40	9.0%

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Attachment C

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FEE SCHEDULE—PUBLIC WORKS DEPARTMENT

State Code § (if any)	MVCC §§	Title of Fee	Current Fee	Recommended Fee	Fee Basis	Effective Date
		Utilities:				
		Existing Facilities Connection:[1]				
	§ 35.41	Sanitary Sewer	$72.00	$75.00	Frontage Foot	8/13/11
	§ 28.51a, 35.37	Water Main	$84.00	$87.00	Frontage Foot	8/13/11
	35.31.6 28.51(b)	Storm Drainage Connection[1] First Class	$0.24	$0.25	Net Square Foot	8/13/11
		Utility Labor Rates:[2]				
		Frontline				
		Regular	$72.00	$73.00	Hour	7/1/11
		Overtime	$107.00	$108.00	Hour	7/1/11
		Utility Rates:				
	§ 35	Water Service Charges		23.0% Increase		7/1/11
	§ 35	Wastewater Service Charges		5.0% Decrease		7/1/11
	§ 16	Refuse and Recycling Charges		6.0% Increase		7/1/11
	§ 35.9	Water Turn On (same day):[1]				
		Authorized M-F called in between 4:01 p.m.-7:59 a.m. and Sat, Sun and Holidays	$107.00	$108.00	Fixed	7/1/11
		Unauthorized				
		M-F called in 7:00 a.m.-4:00 p.m.	$80.00	$81.00	Fixed	7/1/11
		M-F called in between 4:01 p.m.-7:59 a.m. and Sat, Sun and Holidays	$118.00	$119.00	Fixed	7/1/11

ATTACHMENT C

FEE SCHEDULE—PUBLIC WORKS DEPARTMENT

State Code § (if any)	MVCC §§	Title of Fee	Current Fee	Recommended Fee	Fee Basis	Effective Date
		Water Service Installation:[1]				
	§ 35.37	1" Meter and Box Only	$482.00	$499.00	Fixed	8/13/11
	§ 35.37	2" Meter and Box Only	$874.00	$905.00	Fixed	8/13/11

[1] These fees are recommended in accordance with the annual practice of reviewing fees and modifying with ENR, 3.6 percent as of December 2010.
[2] Fees adjusted by appropriate COLA of staff providing service.